HERIOT WATT UNIVERSITY

ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS 2010

For the year ended 31 July

HERIOT-WATT UNIVERSITY

Reports and Financial Statements

Year Ended 31st July 2010

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CONTENTS

	Page
Operating and Financial Review	2-11
Corporate Governance Statement	12-14
Independent Auditors' Report to the Members of the University Court of Heriot-Watt	15-16
Consolidated Income and Expenditure Account	17
Consolidated Statement of Total Recognised Gains and Losses	18
Balance Sheets	19-20
Consolidated Cash Flow Statement	21
Notes to the Accounts	22-58
Members of Court	59
Membership of Committees of Court	60-61
Committee Attendance Record	62-63

OPERATING AND FINANCIAL REVIEW

Strategic Positioning

These financial statements are being produced shortly before the UK Government's Comprehensive Spending Review which is likely to recommend the most Draconian cuts in public expenditure for decades. In anticipation of this, the Group has been reviewing its strategic options and developing plans that will allow us to respond rapidly to a range of scenarios, all of which anticipate substantial cuts to income from publicly funded sources.

Our strategic ambition is still to place Heriot-Watt University at the forefront of research and research-led education in the UK and internationally. As the funding pressure increases and all universities become ever more cost-effective and competitive, we are focussing on the following objectives:

1. maintain financial sustainability
2. grow our academic base selectively through research-led appointments of the highest quality
3. double the income from international business in five to seven years
4. enhance student facing services
5. implement a comprehensive review of professional services in 2010-11

Heriot-Watt University has a special place in Edinburgh and Scottish higher education. We are a leading institution in science, technology and business and excel as Scotland's most international university. We have moved up 18 places in the QS ranking of world's top 400 Universities our third year of sustained advance, and gained places in the majority of UK league tables during 2010. In particular, we are pleased to have realised a very significant improvement in our rating in the National Student Survey in 2010.

Our vision for the next decade is to become a world-leading University in our fields of excellence. To deliver this ambition, we are committed to growth and investment, in staff and in the physical infrastructure of our campuses.

As Scotland's international university, Heriot-Watt University is progressively fulfilling its ambitions. Our outreach is strong and our presence widely established throughout the world. Currently, we have over 10,000 learners studying outside the UK; almost half of all Scottish degrees studied abroad are Heriot-Watt degrees. Our first overseas campus is in Dubai, with around 1,400 students and continues to expand rapidly.

We continue to reinforce our strong research profile across our core disciplines, with a particular focus on a number of multi-disciplinary themes representing major socio-economic and technological challenges - such as infrastructure and transport, energy, environment and climate change, risk, advanced manufacturing, design and innovation, food and drink, and others - and are active participants in Scottish "research pooling" strategies in the majority of our subject areas.

Vision

Heriot-Watt's vision captures our aspiration to make a positive impact on society and the economy through education and research, as demonstrated by the success of our alumni in the organisations in which they now play leading roles around the world.

> '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.'

Mission

The mission of the University is to:

- Enable students and staff to fulfil their potential
- Enrich all the communities with which it engages
- Create and transfer knowledge

Fulfilling our mission is one of the key means by which Heriot-Watt fulfils its value for money obligations to its stakeholders.

OPERATING AND FINANCIAL REVIEW

Strategic Objective
Heriot-Watt University is a research-led university operating in an environment where the focus on performance is critically important. We wish to be recognised by our stakeholders as a high performing university achieving excellence in teaching and research, with a strong profile in knowledge transfer and exceptional developments in the internationalisation of higher education.

Resources

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

Campus Locations
- Edinburgh;
- Galashiels;
- Orkney;
- Dubai

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

Improvements in 2009–2010 included:
- Laser systems in support of the EPSRC-funded Innovative Manufacturing Research Centre;
- Electron-beam and other nanofabrication equipment;
- Infrastructure and equipment in support of photovoltaic solar energy research;
- Infrastructure and imaging equipment for new appointments in the Physical–Life Sciences strategic theme.

Physical Infrastructure
During the year we continued the implementation of our Estate Strategy, investing in the Group's physical infrastructure.

Highlights include:
- Court approval was secured in March 2010 to proceed with a tendering exercise for new student residences. This £32 million project will replace all the existing student accommodation in Galashiels and also provide the first of two new blocks at the Edinburgh campus, allowing the oldest accommodation there to be retired from use.
- Our infrastructure partner in Dubai has commenced work on the construction of the first phase of a new £35m Campus to accommodate our expanding student numbers in the Middle East.
- On the Edinburgh campus a £2.5 million project to upgrade student facing services was substantially completed in time for the start of the new academic year in September 2010. A cornerstone of this enhancement was the opening of a new Student Service Centre located in the heart of the campus. Major improvements were also made to catering outlets and other student services

Financial
At the year-end the Group had net assets of £57 million, which is an increase of £6.9 million compared with the previous year. The Group's net assets excluding pension liability increased by £2 million due to strong operating performance and better cashflow management and despite several material charges to the I&E account.

Further details are set out in the balance sheet on pages 19 to 20.

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 during a period of extraordinary turmoil in the financial markets. At the year-end drawings totalling £20 million had been made against this facility (£3million less than the previous year) and of these, all £20 million were protected from financial market volatility by long term interest rate swaps. The lending is at very competitive rates and there is no penalty for the unused portion of the facility

People
We have made great strides during the year in recognising the contribution of staff by investing in them through our People and Organisational Development department. Highlights of the team's activity include:

- the roll out of our Values Programme,
- the launch of a Spirit of Heriot-Watt Award scheme
- a review of staff policies
- the roll out of a Leadership Programme
- further development of the Performance & Development Review process

At the year-end the Group employed 1,557 people (expressed as full time equivalents), of whom 415 were academics. The ratio of academic to total staff is 26.7%.

During the year a number of new appointments to senior management posts within the University were made, foremost amongst those were the appointment of a new Principal, Prof. Steve Chapman, and a new Secretary of the University, Anne-Marie Dalton. In addition, a new Vice Principal, Prof. Julian Jones, was appointed.

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 25 universities in the UK in terms of grants awarded by the Engineering and Physical Sciences Research Council (EPSRC). Following a very successful result in the Research Assessment Exercise 2008 at the end of 2008, the University was placed 33rd in the key ranking of research intensive Universities in the UK. Continued progress in domestic and international league tables is referred to earlier.

In order to build our reputation, the Group embarked on a branding exercise in 2009. The purpose of this was to speak to a varied group of stakeholders such as staff, students, alumni and business and industry, and inform ourselves of how these important groups perceived the Group. The results showed a very strong brand proposition for Heriot-Watt, based on its distinctive portfolio, high quality research and learning and teaching, its capacity to engage with industry and its international reach. An early manifestation of the implementation of this programme was the launch of a re-vamped corporate web-presence in 2010.

Risk and Uncertainty

The Group has a risk management strategy that captures and monitors the main risks facing the Group as it seeks to achieve its strategic plan. This is supported by risk management training 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 in the strategy 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 throughout the Group's governance structure of the key risks and opportunities that the group is managing.

Stakeholder Relationships

A Group is a complex organisation with many stakeholders including:

- Students
- Staff
- Court (governing body)
- Government
- Public funding bodies (Scottish Funding Council, Research Councils and others)
- Private and commercial funders
- Business and industry
- Alumni
- The communities with which we engage

Maintaining strong effective relationships with all of them is critical to achieving success as the following selected examples reveal.

1. The improvement in our performance in the National Student Survey in 2010, which is due to university staff throughput the organisation working closely with student representatives to identify and prioritise ways to enhance the student learning experience.

2. We are deeply appreciative of the recent C$2 million donation, received post year-end, by Canadian alumnus Robert Buchan to support and develop our research and educational activities in Renewable Energy and continue to work with Mr Buchan to achieve and demonstrate substantial added value from this support.

3. The strong working relationships developed with the planning authorities for Edinburgh Council and Borders Council enabled us to submit well thought out planning applications for our new student residences in Edinburgh and Galashiels, both of which achieved planning approval in recent months.

We were able to reach a mutually beneficial exit from a contract with Scottish Enterprise that sees ownership of the Research park return to the Group. We are beginning to see benefits for all stakeholders from the major European-funded “Converge” project, developed with Scottish Enterprise and launched in 2009, which increases the Group’s capacity for interaction with business and industry

Current Development, Performance and Operation of Group Business

The Group continues to make steady progress in implementing its strategy.

The implementation of our strategy requires a sustained increase in the surplus being generated to provide the necessary funds for future investments, in both major capital projects and new academic staff, which are critical to achieving success. The plan submitted to the Scottish Funding Council in June 2010 is based upon the Group achieving this sustained improvement in its financial performance.

Scope of the financial statements
The financial statements which have been approved by the Court for the year-ended 31st July 2010 consolidate the transactions of the University and its subsidiary undertakings.

Results for the year
The Group reported a surplus of £2.7 million for the year, which represents an increase of £2.1 million compared to the prior year.

These results represent an excellent outturn, when compared to the budget, which planned for a surplus of £1.7 million for 2009-10.

This result excludes the £4.3 million credit that is the actuarial estimate of the benefit to the Group’s pension liability of the UK government’s recent decision to up-rate pensions in line with CPI rather than RPI. The Group has recognised this change, which it considers to be a change of accounting estimate, through the statement of total gains and recognised losses.

OPERATING AND FINANCIAL REVIEW

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

	2010	2009	2008	2007	2006
	£m	£m	£m	£m	£m
Income	142.7	134.5	117.8	110.7	99.5
Year on year change	*+6.1%*	*+14.2%*	*+6.4%*	*+11.3%*	*+5.2%*
Expenditure	(140.0)	(133.9)	(116.4)	(108.9)	(98.4)
Year on year change	*+4.6%*	*+15.0%*	*+6.9%*	*+10.7%*	*+5.8%*
Net surplus for the year	2.7	0.6	1.4	1.8	1.1
Underlying surplus excluding pension adjustment	2.3	0.2	0.6	1.0	1.2

In 2009-10 the Group achieved income growth of 6.1%, despite an essentially flat grant award from the SFC, with total income increasing to £142.7 million. Positive income growth was seen broadly across almost all income categories, as set out in the table below.

The Group's sources of funding are widely diversified, as set out in notes 2 to 6 on pages 29 and 30, and Heriot-Watt uses the public funds made available from the Scottish Funding Council (SFC) highly efficiently, with its total income being more than three and a half times greater than its core base funding. In 2009-10 the recurrent grants received from the SFC for teaching decreased by 0.2% (2008: increase 1.0%) and for research increased by 0.8% (2008: 1.8%). The net of increase, for teaching and research combined, being £62,000.

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.

Geographical Analysis of Income Growth

	2010	*Change*	2009	2008	2007
	£m	%	£m	£m	£m
UK and European Union students	13.2	*13.8%*	11.6	10.5	9.4
Non-European Union students	26.6	*23.7%*	21.5	14.8	13.3

Considerable effort continues to be committed to developing new research proposals and this is having a positive impact in the number and value of the awards being made to the Group. During the year the Group sustained the level of new research awards in excess of the £20 million level it first reached in the previous year, in an environment marked by increasingly fierce competition in an increasingly competitive environment.

Of the Group's active subsidiaries Edinburgh Business School, Heriot-Watt Trading and Edinburgh Conference Centre Ltd all reported successful results for the year of £719,000, £656,000 and £787,000 respectively.

However, Heriot-Watt Sports Village Ltd reported a loss, of £88,000, and its directors will be seeking to rectify this in future years by implementing a new financial plan.

During 2009-10 the group structure has been reviewed and, as a consequence, a number of significant changes have been initiated; in June 2010 an application was made to Companies House to strike off one of the group's dormant companies, Heriot-Watt Properties Ltd and on 31st July 2010 the trading activities of Edinburgh Conference centre Ltd were transferred-up into the University.

In 2009-10 the Group achieved income growth of 6.1% with total income increasing to £142.7 million. Positive income growth was seen broadly across almost all income categories.

	2010	*Change*	2009	2008	2007
	£m	*%*	£m	£m	£m
Income	142.7	*+5.2%*	134.5	117.8	110.7
Staff Costs	70.7	*-3.7%*	73.4	66.3	62.0
Other Operating Expenses	61.4	*+22.1%*	50.3	43.0	39.6
Depreciation	7.1	*-5.0%*	7.5	5.2	5.5
Interest Payable	1.9	*+5.5%*	1.8	1.9	1.6
Total Expenditure[1]	141.1	*+6.1%*	133.0	116.4	108.7

[1] *prior to profits/losses on disposals, taxation and transfers to/from endowments & restricted funds*

Staff costs have decreased by 3.7% compared to the prior year. This is largely attributable to the absence of the £3.4 million voluntary severance cost that was borne in 2008-09, but is also assisted by the subdued increase in wages and salaries during the year, up only 1.0%. Further disclosures are shown in note 7 to the financial statements.

Interest payable increased slightly due to actuarial estimates of a negative return on pension assets during the year. However, bank interest payable fell during the year by 30%, to £1.2 million, due to strong cash flow and proactive management of the Group's banking facilities.

Cash flow management
The Group's focus on cash flow aims to ensure that cash is available as necessary for educational activities for implementation of the strategic plan.

Net debt decreased by £6.2 million during the year, to £7.3 million, with the repayment of bank loans due within one year of £3 million. Thus, as at 31st July 2010 the Group had no short term bank borrowings outstanding.

This has been achieved despite maintaining previous levels of capital investment.

Further detail as to the individual cash items comprising the Group's cash flow statement can be found in notes 24 to 27 of the notes to the accounts on pages 43 and 44.

The net debt position for the Group, before consolidation of the cash balances held by the Edinburgh Business School (which is a separately registered charity), is £14.9 million (2009: £20.2 million).

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 2010 there were 32 days (2009 - 28 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
The gross capital investment of £7.8 million was supported by new deferred capital grant receipts of £2.7 million.

The focus of spend of capital investment during the year was on enhancing the physical and IT infrastructure for the Group's students, both on and off campus.

Key investments included improving lecture theatre spaces at the Edinburgh campus, the initial expenditure on new student halls of residence for both the Edinburgh and Galashiels campuses and further investment on the development of our new Student Administration service.

Further significant capital spend was also incurred to enhance existing research capabilities, funded by grants.

Student Numbers
The Group'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)		2010	2009	2010	2009
Home/EU	Undergraduate	5,464	5,044	5,426	4,993
	Postgraduate	944	953	863	786
International	Undergraduate	432	443	428	413
	Postgraduate	1,022	828	985	818
Total		7,862	7,268	7,702	7,010

		Headcount		Full time equivalents	
Transnational Programmes & Dubai Campus		2010	2009	2010	2009
	Undergraduate	4,029	3,465	2,161	1,675
	Postgraduate	12,076	10,705	2,671	2,220
Total		16,105	14,170	4,832	3,895

The above tables highlight the success the Group has had in attracting international students, both to its Scottish campuses and its transnational degree programmes, with international and transnational students representing 50% (by full time equivalents) of the total student population, compared to 47% in the prior year.

Year end position of the Group

During the year the Group's net current liabilities increased by £0.2 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:-
- Total trade and research debtors increased by 3.0% year on year, which compares favourably with the growth in turnover during the same period of 5.2%
- Prepayments, broadly, changed year on year by only immaterial amounts. The one exception to this was activity relating to Dubai where, as a consequence of the increasing scale of the business, prepayments grew sharply, up £1.2 million in the year to £2.4 million.
- Short-term bank loans decreased during the year to £nil with the repayment of £3 million from the group's own resources.
- Grants in advance for research increased by £1.6 million during the year. This was attributable to a £2.0 million increase in unearned research income.
- Grants in advance from SFC increased by £2.8 million, of which £2.5 million was due to timing differences between the receipt of SFC grants and their expenditure by the University on tangible fixed assets.
- Accruals and deferred income increased by £3.8 million. The largest contributing factor was a marked increase in the goods received note accrual, which grew by £2.2 million year on year. This reflects the higher level of purchasing activity that has been taking place over summer 2010, compared to the year before, in support of the student facing projects that are underway over this year's summer vacation period while the students are off campus.

The most recently financial plan (June 2010) filed with SFC by Heriot-Watt was assessed by their financial model as rating 'secure' in all three of the years being reported on.

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

- Ability to attract and retain the high calibre academic staff key to delivering the Focus on the Future strategy.

External Factors

- Possible adverse development of public funding for Higher Education
- Government regulation (price and volume controls),
- The impact of the credit crunch and rising longevity on USS and LGPS pension scheme funding.
- Exchange rates (the competitiveness of Heriot-Watt's sterling denominated fees in other countries)
- Continuing uncertainty in the economic and financial environment - e.g. uncertainty on recovery prospects, employment, interest rate, energy and commodity price indictors
- The adverse impact on staff and student recruitment of the new UK Border Agency visa requirements

Corporate Activity to improve financial sustainability

- Implementation of the Strategic Plan
- Continued development of a consistent set of KPIs in line with the Strategic Plan
- Better alignment of debtor and creditor cash cycles to ensure cash to fund future expansion
- 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 introduction of the new terms and conditions associated with the National Framework last year has resulted in the introduction of a pay and conditions framework that will support the Group in the future in its implementation of its strategic plan.

The Group's Performance Development Review process was successfully rolled out to all staff by the end of September 2009. A series of projects focussed on people and organisational development commenced during the year, including a staff survey that generated a 44% response and will be used to develop new plans. A new leadership development programme started and by the end of September a number of managers, including all senior managers of the Group, had been through the first phase of the programme.

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 Group has had a long and successful track record of involving its students in decision-making which influences the Group'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 Group strategy. Two-way feedback and consultation is also provided by the Student Experience Working Group, which includes student representation and has a broad remit, encompassing many aspects of the student experience at Heriot-Watt. A key output from this body will be agreement on a series of projects to improve the provision of services and the estate infrastructure.

The National Student Survey (NSS) is a key indicator of students' satisfaction with their higher education learning experience. Heriot-Watt participated in the NSS for the fourth time in 2010 and we were delighted to achieve a significant increase in our rating, with our students' "overall satisfaction" with their learning experience increasing from last year by six percentage points to 87%.

Donations
No donations in excess of £200 were made during 2009-10 to UK political organisations.

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), Supplementary Pension Scheme (SPS) and the Scottish Teachers Superannuation Scheme (STSS). Of these the first three are still active, with members still employed by the Group.

Details of the accounting policies are set out in note 1 on pages 22 and 28 and further disclosures are set out in note 29 on pages 45 to 54. 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 £11.4 million (2009: £10.7 million), details of which are shown in the table below.

	2009-10	*Change*	2008-09	*Change*	2007-08
	£000	%	£000	%	£000
Employer Contributions					
Universities Superannuation Scheme	8,107	*+2.5%*	7,911	*+39.2%*	5,683
Lothian Pension Fund	2,809	*+10.0%*	2,554	*+17.4%*	2,176
Scottish Teachers Superannuation Scheme	97	*-8.5%*	106	*-4.5%*	111
Supplementary Pension Scheme	369	*+315%*	89	*+456%*	16
Total	11,382	*+6.8%*	10,660	*+33.5%*	7,986

In the year the total employer contributions for the three active schemes increased by more than the rate of inflation. This was driven primarily by:

- USS: the increase is attributable to the increase in the employer contribution rate by 2% to 16%, with effect from 1st October 2009. The one-off uplift in employer contribution payments in the previous year, 2008-09, was due to the introduction of the Pension+Plus arrangement for USS members.
- LPF: the increase is attributable to the increase in the employer contribution rate by 4.5% to 25.9%, with effect from 1st April 2009.
- SPS: the increase reflects the one-off employer contribution made in May 2010 to affect the buy in of the scheme to secure the pensioners benefits in advance of undertaking a buy out, which will wind-up the scheme.

The Group continues to operate its Pension+Plus arrangement for employees for are members of USS. Those participating in this arrangement no longer pay employee pension contributions in the usual way. They have instead agreed to a reduction in their salaries equal to their pension contributions and the Group has, in turn, agreed to increase its own pension contributions to cover both the employee and the employer elements.
Both sides have benefited from this arrangement, with reductions in employee and employer National Insurance contributions. The Group has reinvested the savings it has made in new initiatives and the employees involved have benefited from an increase in take home pay.

Both USS and LPF published their latest triennial valuation reports, for which the reference date is 31st March 2008, in December 2008 and January 2009 respectively.

OPERATING AND FINANCIAL REVIEW

Significant changes have been proposed to USS and, following on from the meeting of the USS Trustees on 22nd July 2010, Heriot-Watt, as a participating employer in the scheme will be undertaking a full statutory consultation with its employees in accordance with its legal duties

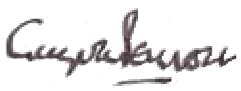
The format of this consultation exercise is determined by regulation under the Pensions Act 2004 and is intended to allow for a significant degree of feedback from members in the scheme.

The Group is planning to initiate this consultation in late September and will run it for at least 70 days. Following the end of the consultation period, early in December, the outcome will be considered by the USS Trustees. Any resulting changes to the reform proposals will then be considered by the JNC and, if rule changes are approved the intention is that these will be implemented as from 1 April 2011.

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 31st July 2010 there were twelve investments (2009 - twelve) 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. Stephen Chapman
Principal & Chief Accounting Officer



Lord George Penrose
Chairman of Court

CORPORATE GOVERNANCE STATEMENT

Introduction
The Group 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, subject to the conclusion of the review being undertaken as to the governance arrangements for the Edinburgh Business School (a separate charitable limited company), the Group complied with the Governance Code of Practice and General Principles and the provisions of the Code provided by the CUC throughout the year ended 31st July 2010. 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, seven are co-opted and three are ex officio. The Court has responsibility for the Group'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 including at an annual strategy review 'away day'. 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. Members of the Planning and Management Executive attend Court meetings along with Deans to support engagement and communication with the University Community.
- 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, the Principal and the 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 six times during the year, five 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 reports and financial statements.
- The Court also has Finance, Estate Strategy, Staffing Strategy and University Collections Committees each of which has a different lay member of Court as convenor. An Endowments Committee, convened by the Vice-Principal, reports to the Court via the Finance Committee.
- There is an Emergency Committee of Court consisting of the Chairman of Court, the convenor of the Audit Committee, the Principal and Vice Principal ex officio, and three other members on Court. The Committee deals with emergency business which may arise between Court meetings.
- Where the Group has commercial interests, the Court, through the Group's management, appoints directors to the boards of companies appropriate to the nature and size of the University's shareholding.
- The Group 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 Group's strategy is documented in a plan which is reviewed and updated on an annual basis. The Group's current 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 Group, 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 Group and of the surplus or deficit and cash flows for that year.

The Group 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 Group 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 Group 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 Group and prevent and detect fraud.

- secure the economical, efficient and effective management of the Group's resources and expenditure.

- ensure that the Group's 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 Group'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.

- Recommendations from the external auditors are also implemented, where possible, 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 Group'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 Group.

- During the year no audit recommendations were made, by either the external or internal auditors, which related to the highest category.

Over the last five years the Group has successfully used its approach to risk management to focus its available audit resource to the best effect. Good progress continued to be made during the last year towards the objective of actioning all recommendations on a timely basis and the Audit Committee continues to encourage the Group's management to build on this progress. This is shown in the table below.

Year	No. of external audit recommendations	Completed	No. of internal audit recommendations	Completed
2005-06	26	100%	66	95%
2006-07	15	100%	106	97%
2007-08	14	93%	117	96%
2008-09	12	67%	63	46%
2009-10	5	60%	66[1]	33%

[1] *excludes minor recommendations*

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

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

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We have audited the Group and the University financial statements of Heriot-Watt University for the year ended 31 July 2010 set out on pages 17 to 58. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These financial statements have been prepared in accordance with the accounting policies set out therein.

This report is made solely to the University Court of Heriot-Watt University, as a body, 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 for the opinions we have formed.

Respective responsibilities of the University Court and Auditors

The responsibilities of the University Court for preparing the Operating and Financial Review and the financial statements in accordance with the Accounts Direction issued by the Scottish Funding Council, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities of the University Court included on page 13 within the Corporate Governance Statement.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Further and Higher Education (Scotland) Acts 1992 and 2005 and, where appropriate, with the Financial Memorandum with the Scottish Funding Council. We also report to you whether in our opinion the Operating and Financial Review is not consistent with the financial statements

In addition, we report to you if, in our opinion, the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained within the Annual Report 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. 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 the 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 the Group's and University's affairs as at 31 July 2010 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the Charter and Statutes of the University and the Further and Higher Education (Scotland) Acts 1992 and 2005 and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

Grant Macrae

Grant Macrae
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

23 November 2010

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31st JULY 2010

	Note	2010 £000	2009 £000
Income			
Funding body grants	2	43,320	42,672
Tuition fees and education contracts	3	57,024	47,970
Research grants and contracts	4	20,469	19,876
Other income	5	20,794	22,765
Endowment and investment income	6	1,055	1,218
Total Income		142,662	134,501
Expenditure			
Staff costs	7	70,729	73,436
Other operating	8	61,386	50,345
Depreciation	10	7,075	7,534
Interest and other finance costs	9	1,963	1,751
Total Expenditure		141,153	133,066
Surplus on continuing operations after depreciation of tangible assets and before taxation		1,509	1,435
Loss on disposal of assets		(212)	(527)
Surplus on continuing operations after depreciation and disposal of assets but before taxation		1,297	908
Taxation		-	(33)
Surplus on continuing operations after depreciation and disposal of assets and taxation		1,297	875
Deficit / (surplus) for the year transferred from / to accumulated income in endowment and restricted funds		1,441	(251)
Net surplus for the year retained within general reserves	23	**2,738**	**624**

All transactions are in respect of continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THIS YEAR ENDING 31st JULY 2010

	Note	*2010* *£000*	*2009* *£000*
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		2,738	624
Appreciation / (depreciation) of endowment asset investments	*14*	815	(762)
New endowments	*14*	(162)	192
Actuarial gain / (loss) in respect of pension schemes		4,041	(12,717)
Total recognised gains / (losses) relating to the year		**7,432**	**(12,663)**

Reconciliation

Opening reserves and endowments	10,159	22,822
Total recognised gains / (losses) relating to the year	7,432	(12,663)
Closing reserves and endowments	**17,591**	**10,159**

BALANCE SHEETS
AS AT 31st JULY 2010

	Note	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Fixed Assets					
Tangible assets	*10*	103,278	102,792	96,835	91,821
Intangible assets	*11*	171	151	-	-
Investments	*12*	5,478	4,439	9,559	10,161
Total Fixed Assets		108,927	107,382	106,394	101,982
Endowment Assets	*14*	6,737	6,084	5,531	5,012
Current Assets					
Stock		30	6	27	-
Debtors	*15*	22,700	21,541	20,307	20,378
Cash at bank and in hand		12,733	9,474	4,425	2,303
		35,463	31,021	24,759	22,681
Less: Creditors - amounts falling due within one year	*16*	(52,225)	(47,572)	(53,762)	(45,282)
Net Current Liabilities		(16,762)	(16,551)	(29,003)	(22,601)
Total Assets less current liabilities		98,902	96,915	82,922	84,393
Less: Creditors - amounts falling due after more than one year	*17*	(25,855)	(26,252)	(24,200)	(24,482)
Less: Provisions for liabilities	*18*	(579)	(591)	(579)	(591)
Net Assets Excluding pension liability		72,468	70,072	58,143	59,320
Pension liability	*29*	(14,994)	(19,499)	(14,847)	(19,281)
Net Assets Including Pension Liability		**57,474**	**50,573**	**43,296**	**40,039**

BALANCE SHEETS
AS AT 31st JULY 2010

	Note	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Deferred capital grants	*19*	38,837	40,254	37,154	38,500
Endowment Funds					
Expendable	*20*	2,200	2,425	2,200	2,425
Permanent	*20*	4,537	3,659	3,331	2,587
		6,737	6,084	5,531	5,012
Reserves					
Income & expenditure account excl. pension reserve	*24*	25,848	23,574	15,458	15,808
Pension reserve	*24*	(14,994)	(19,499)	(14,847)	(19,281)
Income & expenditure account incl. pension reserve		10,854	4,075	611	(3,473)
Restricted funds	*21*	87	156	-	-
Investment reserve	*22*	959	4	-	-
Total Funds		**57,474**	**50,573**	**43,296**	**40,039**

The Financial Statements on pages 17 to 58 were approved by the University Court on 15th November 2010 and were signed on its behalf by:-

Lord George Penrose
Chairman of Court

Prof. Stephen Chapman
Principal & Chief Accounting Officer

Phil McNaull
Director of Finance & IS/IT

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDING 31st July 2010

	Note	2010 £000	2009 £000
Net cash inflow from operating activities	24	14,145	6,727
Returns on investment and servicing of finance	25	(4,012)	(1,043)
Capital expenditure and financial investment	26	(3,874)	(2,875)
Financing	27	(3,000)	(5,003)
Increase / (decrease) / in cash in the year		**3,259**	**(2,194)**

Reconciliation Of Net Cash Flow To Movement In Net Debt

	Note	2010 £000	2009 £000
Increase / (decrease) in cash in the year		3,259	(2,194)
Financing		3,000	5,003
Change in net funds		6,259	2,809
Net debt at 1 August		(13,526)	(16,335)
Net debt at 31 July	28	**(7,267)**	**(13,526)**

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.

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.

The group has implemented the requirements of Financial Reporting Standard 26 (Financial Instruments: recognition and measurement), for which full implementation is required for accounting periods beginning on or after 1st January 2009. The additional disclosures are shown in notes 15 and 36 to the financial statements.

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 31st 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 was a corporate organisation in the USA and, as such, was 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, the scheme's assets are not hypothecated to individual institutions and a scheme wide contribution rate is set. Heriot-Watt is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by 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.

The purchase by Edinburgh Business School of Author Royalty Rights have been capitalised and are being written down over a period of 4 years, the expected economic life of the courses.

Tangible fixed assets

Land & Buildings

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.

Depreciation

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:

EBS Americas (up to the point of disposal): - All equipment capitalised by EBS Americas as at the date of takeover (9th February 2007), is being depreciated either on a straight-line basis or on a 200% declining balance basis. All equipment purchased after 9th February 2007 costing less than $10,000 is written off to the statement of financial activities 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 (5 years).

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.

Financial Instruments

Financial assets

Classification

The University classifies its financial assets in the following categories: at fair value, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

a) Financial assets at fair value through the income and expenditure account

Financial assets at fair value through the income and expenditure account comprise derivatives. Assets in this category are classified as current assets. The University does not trade in derivatives and does not apply hedge accounting.

b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash at bank and in hand in the balance sheet.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

Financial assets are recognised when the University becomes party to the contractual provisions of the financial instrument. Financial assets are derecognised when the rights to receive cash flows from the asset have expired or have been transferred and the University has transferred substantially all risks and rewards of ownership.

a) Financial assets at fair value through surplus or deficit

Financial assets carried at fair value are initially recognised at fair value, and transaction costs are expensed in the income and expenditure account. Financial assets carried at fair value are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the income and expenditure account.

b) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the University will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loan and receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income and expenditure account. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the income and expenditure account.

c) Available-for-sale financial assets

Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Changes in the fair value of financial assets classified as available for sale are recognised in reserves. When financial assets classified as available for sale are sold or impaired, the accumulated fair value adjustments recognised in reserves are included in the income and expenditure account.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less impairment.

The University assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income and expenditure account – is removed from reserves and recognised in the income and expenditure account. Impairment losses recognised in the income and expenditure account on equity instruments are not reversed through the income and expenditure account.

Financial Liabilities

Classification

The University classifies its financial liabilities in the following categories: at fair value through surplus or deficit, and other financial liabilities. The classification depends on the purpose for which the financial liabilities were issued. Management determines the classification of its financial liabilities at initial recognition.

a) Financial liabilities at fair value

Financial liabilities at fair value comprise derivatives. Liabilities in this category are classified as current liabilities. The University does not trade in derivatives and does not apply hedge accounting.

b) Other financial liabilities

Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. The University's other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

Financial liabilities are recognised when the University becomes party to the contractual provisions of the financial instrument. A financial liability is removed from the balance sheet when it is extinguished, that is when the obligation is discharged, cancelled or expired.

a) Financial liabilities at fair value

Financial liabilities carried at fair value are initially recognised at fair value, and transaction costs are expensed in the income and expenditure account. Financial liabilities carried at fair value are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the income and expenditure account.

b) Other financial liabilities

Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

NOTES TO THE ACCOUNTS
For the year ending 31st July 2010

2. Funding Body Grants

	Group 2010	*Group 2009*
	£000	*£000*
Recurrent teaching grant	24,696	24,752
Recurrent research grant	14,380	14,262
LTIF/SRIF grants	129	129
DUIS/RCIF grants	27	-
Release of deferred capital grants	2,414	2,608
Other grants	1,674	921
	43,320	42,672

3. Tuition Fees and Education Contracts

	Group 2010	*Group 2009*
	£000	*£000*
UK Higher education students	11,206	8,976
European Union students (ex. UK)	2,001	2,617
Non European Union students	26,677	21,488
Higher education contracts	8,945	7,782
Research training support grants	5,086	3,687
Short course fees	691	1,111
Examination and graduation fees	2,418	2,309
	57,024	47,970

4. Research Grants and Contracts

	Group 2010	*Group 2009*
	£000	*£000*
Research councils	11,008	9,412
Charities	521	514
UK government	1,898	2,569
UK industry	3,170	3,445
EU Commission	1,288	1,029
Other sources	2,584	2,907
	20,469	19,876

NOTES TO THE ACCOUNTS
For the year ending 31st July 2010

5. Other Income

	Group 2010 £000	Group 2009 £000
Residences, catering and conferences	12,781	10,529
Other services rendered	4,519	4,195
Royalties	173	46
Donations	805	805
Release of deferred capital grants	491	364
Other income	2,025	6,826
	20,794	22,765

6. Endowment and Investment Income

	Group 2010 £000	Group 2009 £000
Income from specific endowment assets	195	679
Income from restricted funds	-	5
Other investment income	739	-
Other interest receivable	121	534
	1,055	1,218

7. Staff Costs

	Group 2010 £000	Group 2009 £000
Wages and salaries	56,549	55,884
Voluntary severance	-	3,415
Social security costs	4,364	4,434
Other pension costs	9,816	9,703
	70,729	73,436

Analysed between:

	Group 2010 £000	Group 2009 £000
Academic	26,518	28,889
Academic support	23,462	23,589
Other support	1,594	1,380
Administrative & central services	10,626	10,098
Estates	4,689	5,381
Catering and residences	3,840	4,099
	70,729	73,436

Staff Costs (continued)

At the year-end the number of persons employed by the group, expressed as full-time equivalents, was:

	Number	*Number*
Academic	415	420
Academic support	557	559
Other support	39	36
Administrative & central services	255	239
Estates	148	165
Catering and residences	143	155
	1,557	1,574

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

	2010 Number	*2009 Number*
£70,001 - £80,000	38	35
£80,001 - £90,000	8	10
£90,001 - £100,000	11	5
£100,001 - £110,000	9	5
£110,001 - £120,000	6	2
£120,001 - £130,000	2	2
£130,001 - £140,000	1	-
£140,001 - £150,000	2	-
£150,001 - £160,000	-	1
£160,001 - £170,000	1	-
£190,001 - £200,000	1	1
	79	61

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

	Prof. A Muscatelli 2010 £000	*Prof. S Chapman 2010 £000*	*2010 £000*	*2009 £000*
Salary	53	153	206	199
Benefits in kind	3	12	15	9
	56	165	221	208
Pension contributions	6	33	39	40

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 £932 (2009: £4,513) 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 2010 £000	*Group 2009 £000*
	Other operating expenses include:		
*	External auditors' remuneration - audit	48	47
	External auditors' remuneration – non-audit services	30	50
**	Internal auditors' remuneration	62	26
	Loss on disposal of tangible fixed assets	212	527
	Hire of other assets - operating leases - other	148	264
	Finance lease charges	3	2

* Inc. £33,000 (2009: £32,705) for Heriot-Watt University

** Inc. £62,000 (2009: £25,755) for Heriot-Watt University

9. Interest and Other Finance Costs

	Group 2010 £000	*Group 2009 £000*
Finance lease interest	3	2
Net return on pension assets	730	-
On bank loans: repayable within 5 years, by instalments	-	-
On bank loans: repayable wholly or partly in more than 5 years	1,230	1,749
	1,963	1,751

10. Tangible Fixed Assets

	Land &Buildings	*Equipment*	*Work In Progress*	*Total*
	£000	*£000*	*£000*	*£000*
Group				
Cost				
At 1 August 2009	141,167	32,406	5,779	179,352
Additions	219	2,616	4,938	7,773
Transfers	-	-	-	-
Disposals	(339)	(11)	-	(350)
At 31 July 2010	141,047	35,011	10,717	186,775
Depreciation				
At 1 August 2009	52,192	24,368	-	76,560
Charge for year	3,755	3,320	-	7,075
Disposals	(127)	(11)	-	(138)
At 31 July 2010	55,820	27,677	-	83,497
Net Book Value				
At 31 July 2010	85,227	7,334	10,717	103,278
At 1 August 2009	88,975	8,038	5,779	102,792

Analysed between:

	£000	*£000*	*£000*	*£000*
Funded by capital grants	35,351	3,486	-	38,837
Own funded	49,876	3,848	10,717	64,441
At 31 July 2010	85,227	7,334	10,717	103,278

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 £10,717,000 (2009: £5,779,000) relating to assets in the course of construction, of which £5,948,000 (2009: £1,877,000) relates to freehold land and buildings and £4,769,000 (2009: £3,902,000) relates to equipment.

Tangible Fixed Assets (continued)

	Land & Buildings	Equipment	Work In Progress	Total
	£000	£000	£000	£000
University				
Cost				
At 1 August 2009	129,449	31,169	4,825	165,443
Additions	664	2,519	4,962	8,145
Transfers	5,147	227	-	5,374
Disposals	(339)	(11)	-	(350)
At 31 July 2010	134,921	33,904	9,787	178,612
Depreciation				
At 1 August 2009	49,991	23,631	-	73,622
Charge for year	3,448	3,186	-	6,634
Transfers	1,473	186	-	1,659
Disposals	(127)	(11)	-	(138)
At 31 July 2010	54,785	26,992	-	81,777
Net Book Value				
At 31 July 2010	80,136	6,912	9,787	96,835
At 1 August 2009	79,458	7,538	4,825	91,821

Analysed between:				
	£000	£000	£000	£000
Funded by capital grants	33,748	3,406	-	37,154
Own funded	46,388	3,506	9,787	59,681
At 31 July 2010	80,136	6,912	9,787	96,835

The net book value of the University’s tangible fixed assets funded by capital grants includes £11,868,000 (2009: £9,312,000) 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 £9,787,000 (2009: £4,825,000) relating to assets in the course of construction, of which £5,018,000 (2009: £994,000) relates to freehold land and buildings and £4,769,000 (2009: £3,831,000) relates to equipment.

11. Intangible Fixed Assets

	Group & University			
	Royalties	*Goodwill*	*Course materials*	*Total*
	£000	*£000*	*£000*	*£000*
Cost				
At 1 August 2009	-	172	524	696
Additions	200	-	-	200
Disposals	-	(172)	(524)	(696)
At 31 July 2010	200	-	-	200
Amortisation				
At 1 August 2009	-	21	524	545
Charge for year	29	-	-	29
Disposals	-	(21)	(524)	(545)
At 31 July 2010	29	-	-	29
Net Book Value				
At 31 July 2010	171	-	-	171
At 1 August 2009	-	151	-	151

12. Investments

	Group		*University*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Listed investments on the London Stock Exchange	5,433	4,383	-	-
Investment in subsidiary companies at cost	-	-	9,514	10,105
Minority investments in unquoted companies	45	56	45	56
	5,478	4,439	9,559	10,161

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*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	6,084	6,654	5,012	5,327
(Decrease) / increase in cash balances held	(162)	192	(162)	192
Appreciation of endowment asset investments	815	(762)	681	(507)
Balance at 31 July	6,737	6,084	5,531	5,012
Represented by:				
Equities (listed)	5,306	4,491	4,100	3,419
Cash balances	1,431	1,593	1,431	1,593
	6,737	6,084	5,531	5,012

15. Debtors

	Group		*University*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Amounts falling due within one year:				
Trade debtors	5,643	5,429	3,417	3,720
Research debtors	8,116	7,918	8,116	7,918
Other debtors	-	31	-	-
Amounts owed by group undertakings	-	-	131	1,108
Prepayments and accrued income	4,870	3,820	4,572	3,289
	18,629	17,198	16,236	16,035
Amounts falling due after more than one year:				
Prepayments and accrued income	4,071	4,343	4,071	4,343
	22,700	21,541	20,307	20,378

Included in prepayments and accrued income is £4,071,000 (2009: £4,343,000) 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 1st February 2008, the practical completion date for the redevelopment of the site.

Debtors (continued)

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Trade & research debt provision				
At 1 August	1,261	1,254	1,252	1,194
Provided for during the year	2,085	859	2,067	859
Utilised during the year	(2,085)	(852)	(2,058)	(801)
At 31 July	1,261	1,261	1,261	1,252

At 31st July 2010 debtors with a carrying value of £3,010,000 (2009: £2,912,000) were impaired and provided for. The amount of the provision was £1,261,000 (2009: £1,261,000). The aging of these debtors is as follows:

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Between 3 to 6 months past due	844	850	761	847
Over 6 months past due	2,166	2,062	1,967	2,059
	3,010	2,912	2,728	2,906

The debtors assessed as individually impaired comprises student and commercial customers of £2,719,000 (2009: £2,377,000) and research customers of £291,000 (2009: £535,000) with whom it is judged there is an increased risk of default due to the age of the individual debts concerned.

Debtors that are less than three months past their due date are not considered impaired. As at 31st July 2010 debtors with a carrying value of £2,105,000 (2009: £2,133,000) were past their due date but not impaired. The ageing of debtors which are past their due date but not impaired is as follows:

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Less than 3 months past due	2,105	2,133	1,939	1,925
Between 3 to 6 months past due	-	-	-	-
Over 6 months past due	-	-	-	-
	2,105	2,133	1,939	1,925

The debtors assessed as past due but not impaired primarily relate to balances due from student and commercial customers of £1,005,000 (2009: £1,332,000) and research customers of 1,100,000 (2009: £801,000) with which there is no history of default recently.

All debtors are denominated in GB pounds. The carrying amount of short term receivables approximates their fair value. The effective interest rate on non-current debtors is nil.

16. Creditors: Amounts Falling Due Within One Year

	Group		*University*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Bank loans	-	3,000	-	3,000
Amounts owed to subsidiary undertakings	-	-	4,358	-
Grants in advance for research	14,046	12,446	14,046	12,445
Grants in advance from SFC	12,549	9,735	12,549	9,735
Other creditors	48	37	22	11
Trade creditors	3,361	3,626	3,275	3,346
Other taxation and social security	3,015	3,288	2,835	3,162
Accruals and deferred income	19,206	15,440	16,677	13,583
	52,225	47,572	53,762	45,282

All creditors are denominated in GB pounds. The carrying amount of short term payables approximates their fair value. The effective interest rate on non-current creditors, except bank loans, is nil.

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

	Group		*University*	
	2010	*2009*	*2010*	*2009*
	£000	*£000*	*£000*	*£000*
Bank loans	20,000	20,000	20,000	20,000
Deferred income	5,647	6,007	4,071	4,343
Other creditors	208	245	129	139
	25,855	26,252	24,200	24,482
The above loans are repayable as follows:				
In one year or less (note 16)	-	3,000	-	3,000
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
In five years or more	20,000	20,000	20,000	20,000
	20,000	20,000	20,000	20,000
	20,000	23,000	20,000	23,000

Bank loans comprise £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 2009	591	591
Provided for during the year	24	24
Utilised during the year	(36)	(36)
At 31 July 2010	579	579
To be spent before 31 July 2011	37	37

19. Deferred Capital Grants

	Funding Council	*Other Grants*	*Total*
	£000	*£000*	*£000*
Group			
At 1 August 2009			
Buildings	26,665	9,968	36,633
Equipment	2,862	759	3,621
Total	29,527	10,727	40,254
Cash Received			
Buildings	150	758	908
Equipment	(318)	2,137	1,819
Total	(168)	2,895	2,727
Released to Income and Expenditure			
Buildings	1,698	492	2,190
Equipment	872	1,082	1,954
Total	2,570	1,574	4,144
At 31 July 2010			
Buildings	25,117	10,234	35,351
Equipment	1,672	1,814	3,486
Total	26,789	12,048	38,837

Cash received of £11,868,000 (2009: £9,312,000) is excluded from deferred capital grants and disclosed in creditors falling due within one year 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 2009			
Buildings	26,609	8,372	34,981
Equipment	2,862	657	3,519
Total	29,471	9,029	38,500
Cash Received			
Buildings	149	758	907
Equipment	(318)	2,137	1,819
Total	(169)	2,895	2,726
Released to Income and Expenditure			
Buildings	1,696	444	2,140
Equipment	872	1,060	1,932
Total	2,568	1,504	4,072
At 31 July 2010			
Buildings	25,062	8,686	33,748
Equipment	1,672	1,734	3,406
Total	26,734	10,420	37,154

20. Endowments

	Group			*University*		
	Restricted Expendable £000	*Restricted Permanent £000*	*Total £000*	*Restricted Expendable £000*	*Restricted Permanent £000*	*Total £000*
At 1 August 2009	2,425	3,659	6,084	2,425	2,587	5,012
Additions	1,055	155	1,210	1,055	155	1,210
Transfers	(368)	368	-	(368)	368	-
Appreciation	211	604	815	211	470	681
Income for year	35	97	132	35	97	132
Expenditure for the year	(1,158)	(346)	(1,504)	(1,158)	(346)	(1,504)
At 31 July 2010	2,200	4,537	6,737	2,200	3,331	5,531
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 August 2008	2,735	3,919	6,654	2,735	2,592	5,327
Additions	-	57	57	-	57	57
Re-class to deferred grants	-	(150)	(150)	-	(150)	(150)
Transfers	(537)	537	-	(537)	537	-
Depreciation	(171)	(591)	(762)	(171)	(335)	(506)
Income for year	483	200	683	483	114	597
Expenditure for the year	(85)	(313)	(398)	(85)	(228)	(313)
At 31 July 2009	2,425	3,659	6,084	2,425	2,587	5,012

21. Restricted Funds

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Balance at 1 August	156	190	-	-
Income in the year	-	5	-	-
Expenditure in the year	(69)	(39)	-	-
Balance at 31 July	87	156	-	-

22. Investment Reserve

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Balance at 1 August	4	43	-	-
Revaluation for the year	955	(39)	-	-
Balance at 31 July	959	4	-	-

23. General Reserve

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Balance at 1 August	4,075	16,168	(3,473)	9,439
Net surplus / (deficit) retained for the year	2,738	624	104	(437)
Transfer to / (from) reserves	4,041	(12,717)	3,980	(12,475)
Balance at 31 July	10,854	4,075	611	(3,473)

	Group 2010 £000	Group 2009 £000
The net surplus retained for the year is analysed as follows:		
University surplus / (deficit)	104	(437)
Gift Aid from subsidiaries	-	969
Surplus retained by subsidiaries	2,634	92
	2,738	624

Reconciliation:

	Group 2010 £000	Group 2009 £000	University 2010 £000	University 2009 £000
Income and expenditure reserve	25,848	23,574	15,458	15,808
Pension reserve	(14,994)	(19,499)	(14,847)	(19,281)
Balance at 31 July	10,854	4,075	611	(3,473)

NOTES TO THE ACCOUNTS
For the year ending 31st July 2010

General Reserve (continued)

Represented by:

	Group		University	
	2010	*2009*	*2010*	*2009*
Income and expenditure account	*£000*	*£000*	*£000*	*£000*
At 1 August	23,574	23,291	15,808	16,562
Surplus / (deficit) for the year	2,738	624	104	(437)
Transfer to pension reserve	(464)	(341)	(454)	(317)
At 31 July	25,848	23,574	15,458	15,808

	Group		University	
	2010	*2009*	*2010*	*2009*
Pension Reserve	*£000*	*£000*	*£000*	*£000*
Deficit at 1 August	(19,499)	(7,123)	(19,281)	(7,123)
Current service cost	(2,125)	(1,754)	(2,076)	(1,726)
Employer contributions	3,300	2,619	3,237	2,562
Contributions in respect of unfunded benefits	21	14	21	14
Curtailments and settlements	(2)	(60)	(2)	(60)
Past service cost	-	(400)	-	(394)
Net return on assets	(730)	(78)	(726)	(79)
Actuarial gains / (losses)	4,041	(12,717)	3,980	(12,475)
Deficit at 31 July	(14,994)	(19,499)	(14,847)	(19,281)

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

	Group	
	2010	*2009*
	£000	*£000*
Income & expenditure		
Surplus on continuing operations after depreciation and disposal of assets and taxation	1,297	875
Restricted funds	69	-
Interest receivable	(121)	(534)
Interest payable	1,963	1,751
Taxation	-	33
	3,208	2,125
Fixed assets & deferred capital grants		
Depreciation of tangible fixed assets	7,075	7,534
Loss on disposal of tangible fixed assets	212	527
Amortisation of intangible fixed assets	29	81
Loss on disposal of intangible fixed assets	151	-
Deferred capital grants released to income	(4,144)	(4,652)
Transfer from deferred capital grants to creditors	2,556	-
	5,879	3,490
Endowments & pensions		
Transfer from accumulated income to specific endowments	1,372	(285)
Transfer from accumulated income to restricted funds	69	34
Pension (income)	(464)	(341)
Net return on pension assets	730	78
	1,707	(514)
Working capital		
Increase in fixed asset investments	(1,039)	(2,009)
(Increase) in stocks	(24)	(1)
(Increase) / decrease in debtors	(1,159)	1,082
Increase in creditors	4,699	2,407
(Decrease) / increase in provisions	(12)	218
	2,465	1,697
Reserves		
Decrease in restricted funds	(69)	(34)
Increase / (decrease) in investment reserve	955	(39)
Increase in revaluation reserve	-	2
	886	(71)
Net Cash Inflow from Operating Activities	14,145	6,727

NOTES TO THE ACCOUNTS
For the year ending 31st July 2010

25. Returns On Investment And Servicing Of Finance

	Group 2010 £000	Group 2009 £000
Income received on specific endowments	132	683
Expenditure paid on specific endowments	(1,504)	(398)
Interest received	122	535
Income received on restricted funds	-	5
Expenditure paid on restricted funds	(69)	(39)
Interest paid	(1,963)	(1,751)
Net return on pension assets	(730)	(78)
Net Cash Outflow from Returns on Investment and Servicing of Finance	(4,012)	(1,043)

26. Capital Expenditure And Financial Investment

	Group 2010 £000	Group 2009 £000
Purchase of tangible fixed assets	(7,773)	(10,909)
Proceeds on disposal of tangible fixed assets	-	44
Purchase of intangible fixed assets	(200)	-
Payments to acquire endowment assets	162	(192)
Deferred capital grants received	2,727	8,275
Endowments received	1,210	(93)
Net Cash Outflow from Capital Expenditure and Financial Investment	(3,874)	(2,875)

27. Financing

	Group 2010 £000	Group 2009 £000
New amounts drawn down	-	-
Repayment of amounts borrowed	(3,000)	(5,000)
Capital element of finance lease rentals paid	-	(3)
Net Cash Outflow from Financing	(3,000)	(5,003)

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

	At 1 August 2009	*Cash Flows*	*Non-cash Changes*	*At 31 July 2010*
	£000	*£000*	*£000*	*£000*
Cash at bank and in hand	9,474	3,259	-	12,733
	9,474	3,259	-	12,733
Debts due within one year	(3,000)	3,000	-	-
Debts due after one year	(20,000)	-	-	(20,000)
Finance leases	-	-	-	-
	(13,526)	6,259	-	(7,267)

Had the cash held under endowment asset investments been included above, the net cash inflow would have been £6,097,000 (2009: outflow £3,001,000) with net debt at 31 July 2010 of £5,836,000 (2009: £11,933,000). 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.

29. Pension Schemes

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £9,816,000 (2009 - £9,703,000).

	Group	
	2010	*2009*
	£000	*£000*
The total pension charge is analysed as follows:		
Universities Superannuation Scheme	8,107	7,911
Lothian Pension Fund	1,612	1,686
Scottish Teachers Superannuation Scheme	97	106
Supplementary Pension Scheme	-	-
	9,816	9,703

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, of the Scottish Teachers Superannuation Scheme on 31st March 2005 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 deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31st March 2008 and was carried out using the projected unit method.

This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt 'a statutory funding objective', which is to have sufficient and appropriate assets to pay its benefits as they fall due (the technical provisions).

The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31st March 2010 are also included in this note.

The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments, the rates of increase in salary and pensions and the assumed rates of mortality.

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

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

The standard mortality tables were used as follows:

Male members' mortality	PA92 medium cohort year of birth tables, rated down 1 year
Female members' mortality	PA92 medium cohort year of birth tables, no age rating

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

Males currently aged 65	22.8 years	Females currently aged 65	*24.8 years*
Males currently aged 45	24.0 years	Females currently aged 45	*25.9 years*

Pension Schemes (continued)

At the valuation date, the value of the assets of the scheme was £28,842 million and the value of the scheme's technical provisions was £28,135 million, indicating a surplus of £707 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as the valuation date.

- On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 71%.
- Under the Pension Protection Fund regulations, introduced by the Pensions Act 2004, the Scheme was 107% funded.
- On a buy out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company.
- Using FRS 17, as if USS was a single employer scheme, and using an AA bond discount rate of 6.5% per annum, based on spot yields, the actuary estimated that the funding level was 104%.

However, as the technical provisions relate, essentially, to the past service liabilities funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits.

The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions, except that:-

- The valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum
- A discount rate of 6.1% per annum was used
- The allowance for promotional salary increase was not as high.

As there is currently uncertainty in the sector regarding pay growth and analysis has shown there to have been very variable levels of growth, over and above general pay increases, in recent years the salary growth assumption built into the cost of future accrual, which is based on more stable historic salary experience, has been supplemented by a cautionary reserve.

The scheme wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate accordingly to this level from 1st October 2009.

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

On the FRS17 basis, using an AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%

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

Pension Schemes (continued)

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 £1.5 billion
Rate of salary growth	Increase / decrease by 0.5%	Increase / decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements)	Increase by £1.6 billion

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee 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 although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial valuation is due as at 31st March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total contribution made for the year ended 31st July 2010 was £8,328,000 (2009: £8,161,000), of which employer's contributions totalled £8,107,000 (2009: £7,911,000) and employee's contributions totalled £221,000 (2009: £250,000). The agreed contribution rates set are 16% (2009: 16%) for the employer and 6.35% (2009: 6.35%) for employees.

The employer's contributions include £83,000 (2009: £98,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Lothian Pension Fund

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

The major assumptions used by the actuary were:

	2010	*2009*
Price increases	*2.9%*	*3.7%*
Salary increases	*4.9%*	*5.2%*
Pension increases	*2.9%*	*3.7%*
Discount rate	*5.4%*	*6.0%*

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 2010 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2009 £000*
Equities	*7.3%*	41,421	*7.3%*	37,054
Bonds	*4.8%*	4,906	*5.3%*	4,169
Property	*5.3%*	5,450	*5.3%*	4,169
Cash	*4.4%*	2,725	*4.3%*	926
Total		54,502		46,318

The following amounts represent Heriot-Watt University's share of the scheme at 31st July 2010 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2010	*2009*
	£000	*£000*
At 1 August	46,318	49,220
Expected return on assets	3,246	3,626
Contributions by members	672	681
Contributions by employer	2,952	2,544
Benefits paid	(2,148)	(2,233)
Actuarial gains / (losses)	3,462	(7,520)
At 31 July	54,502	46,318

Pension Schemes (continued)

Reconciliation of present value of liabilities

	2010	*2009*
	£000	*£000*
At 1 August	(65,793)	(56,283)
Current service cost	(2,125)	(1,754)
Interest cost	(3,967)	(3,693)
Contributions by members	(672)	(681)
Curtailments and settlements	(2)	(60)
Past service gains / (losses)	-	(400)
Benefits paid	2,148	2,233
Actuarial gains / (losses)	915	(5,155)
At 31 July	(69,496)	(65,793)
Net pension liability	(14,994)	(19,475)

Analysis Of Amount Charged To Operating Profit

	2010	*2010*	*2009*	*2009*
	£000	*% of payroll*	*£000*	*% of payroll*
Amount charged to operating profit				
Service cost	2,125	*19.2%*	1,754	*15.9%*
Past service gains / (losses)	-	-	400	*3.6%*
Total Operating Charge	2,125	*19.2%*	2,154	*19.5%*

Analysis Of Amount Credited To Other Finance Income

	2010	*2010*	*2009*	*2009*
	£000	*% of payroll*	*£000*	*% of payroll*
Expected return on employer assets	3,246	*29.3%*	3,626	*32.9%*
Interest on pension scheme liabilities	(3,967)	*(35.8)%*	(3,693)	*(33.5)%*
Net Return	(721)	*(6.5)%*	(67)	*0.6%*
Estimated net revenue account cost	1,404	*(26.5)%*	2,221	*20.1%*

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

	2010	*2009*
	£000	*£000*
Actual return less expected return on pension scheme assets	3,462	(7,520)
Experience (losses) / gains arising on the scheme liabilities	(37)	1,428
Changes in assumptions underlying the present value of the scheme liabilities	952	(6,583)
Actuarial gain /(loss) in pension plan	4,377	(12,675)
Actuarial gain / (loss) recognised in STRGL	4,377	(12,660)

Pension Schemes (continued)

Movement In Deficit During The Year

	2010 *£000*	*2009* *£000*
Deficit at start of the year	(19,475)	(7,063)
Current service cost	(2,125)	(1,754)
Employer contributions	2,931	2,530
Contributions in respect of unfunded benefits	21	14
Curtailments and settlements	(2)	(60)
Past service gains / (losses)	-	(400)
Net return on pension assets	(721)	(67)
Actuarial gains / (losses)	4,377	(12,675)
Deficit at end of the year	(14,994)	(19,475)

History Of Experience Gains And Losses

	2010 *£000*	*2009* *£000*
Difference between expected and actual return on assets	3,462	(7,520)
Value of assets	54,502	46,318
Percentage of assets	*6.4%*	*(16.2)%*
Experience (losses) / gains on liabilities	(37)	1,428
Total present value of liabilities	69,496	65,793
Percentage of the total present value of liabilities	*-%*	*2.2%*
Actuarial gain / (loss) recognised in STRGL	4,377	(12,675)
Total present value of liabilities	69,496	65,793
Percentage of the total present value of liabilities	*6.3%*	*(19.3)%*

In its June 2010 budget, the UK government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The University has considered the Lothian Pension Fund scheme rules and associated members' literature and has concluded that, as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses (STRGL). At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change in the financial statements for the following year.

The total contribution made for the year ended 31st July 2010 was £3,476,000 (2009: £3,220,000), of which employer's contributions totalled £2,809,000 (2009: £2,554,000) and employee's contributions totalled £667,000 (2009: £666,000). The agreed contribution rates for future years are 25.9% (2009: 25.9%) for employers and 6.4% (2009: 6.4%) for employees. The employer's contributions include £297,000 (2009: £283,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Scottish Teachers Superannuation Scheme

Heriot-Watt participates in the Scottish Teachers Superannuation Scheme (STSS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). STSS operates on a notionally funded basis. The latest actuarial valuation of the scheme was at 31st March 2005 and was carried out using the prospective benefit method.

The 2005 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 2005, 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.

The assumptions used (to which the valuation results were particularly sensitive) are shown in the table below.

	Valuation
Gross rate of return	*6.5%*
Real rate of return in excess of prices	*3.5%*
Real rate of return in excess of earnings	*2.0%*
Rate of real earnings growth	*1.5%*
Mortality for new members	PA92 tables rated down 2 years for males and 1 years for females
Mortality for existing & deferred members	PA92 tables rated down 1.5 years for males and 0.5 years for females
Mortality for existing pensioners	PMA 92 tables rated down 1 year for males

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

At the valuation date, the value of the assets of the scheme was £18.5 million and the present value of liabilities was £19.5 million, indicating a deficit of £1 million. Included within the scheme's assets were notional investments of £13 million held in the SCAPE account.

The institution contribution rate required for future service benefits at the date of the valuation was 14.9% of pensionable salaries and, on the advice of the actuary, it was agreed to increase the institution contribution rate by 1.4% to 14.9% as from 1st April 2009.

Surpluses or deficits which arise at future valuations may impact on Heriot-Watt's future contribution commitment. A deficit may require additional funding in the form of higher contributions, whereas a surplus could be used to reduce contribution requirements.

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Rate of mortality	Active members of the scheme live for 1 year more or 1 year less	Standard contribution rate increases decreases by 0.25%

The next formal triennial valuation is due as at 31st March 2009.

The total contribution made for the year ended 31st July 2010 was £139,000 (2009: £154,000), of which employer's contributions totalled £97,000 (2009: £106,000) and employee's contributions totalled £42,000 (2009: £48,000). The agreed contribution rates for future years are 14.9% (2009: 14.9%) for employers and 6.4% (2009: 6.4%) for employees. The employer's contributions include £11,000 (2009: £13,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Supplementary Pension Scheme

A full actuarial valuation was carried out at 31st March 2007 by a qualified independent actuary.

The major assumptions used by the actuary were:

	2010	*2009*
Price increases	*3.1%*	*3.3%*
Pension increases	*3.1%*	*3.3%*
Discount rate	*5.4%*	*6.0%*

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 2010 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2009 £000*
Fixed interest & index linked securities	*4.8%*	1,105	*5.5%*	1,061
Total		1,105		1,061

The following amounts represent Heriot-Watt University's share of the scheme at 31st July 2010 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2010	*2009*
	£000	*£000*
At 1 August	1,061	990
Expected return on assets	54	56
Contributions by employer	369	89
Benefits paid	(60)	(58)
Actuarial losses	(319)	(16)
At 31 July	1,105	1,061

Reconciliation of present value of liabilities

	2010	*2009*
	£000	*£000*
At 1 August	(1,085)	(1,035)
Interest cost	(63)	(67)
Benefits paid	60	58
Actuarial losses	(17)	(41)
At 31 July	(1,105)	(1,085)
Net pension liability	-	(24)

Pension Schemes (continued)

Analysis Of Amount Credited To Other Finance Income

	2010	*2009*
	£000	*£000*
Expected return on employer assets	54	56
Interest on pension scheme liabilities	(63)	(67)
Net Return	(9)	(11)
Estimated net revenue account cost	(9)	(11)

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

	2010	*2009*
	£000	*£000*
Actual return less expected return on pension scheme assets	(319)	(16)
Experience gains / (losses) arising on the scheme liabilities	31	(18)
Changes in assumptions underlying the present value of the scheme liabilities	(48)	(23)
Actuarial loss in pension plan	(336)	(57)
Actuarial loss recognised in STRGL	(336)	(57)

Movement In Deficit During The Year

	2010	*2009*
	£000	*£000*
Deficit at start of the year	(24)	(45)
Employer contributions	369	89
Net return on pension assets	(9)	(11)
Actuarial losses	(336)	(57)
Deficit at end of the year	-	(24)

History Of Experience Gains And Losses

	2010	*2009*
	£000	*£000*
Difference between expected and actual return on assets	(319)	(16)
Value of assets	1,105	1,061
Percentage of assets	*(28.9)%*	*(1.5)%*
Experience gains / (losses) on liabilities	31	(18)
Total present value of liabilities	1,105	1,085
Percentage of the total present value of liabilities	*2.8%*	*(1.7)%*
Actuarial losses recognised in STRGL	(336)	(57)
Total present value of liabilities	1,105	1,085
Percentage of the total present value of liabilities	*(30.4)%*	*(5.2)%*

The total contribution made for the year ended 31st July 2010 was £369,000 (2009: £89,000), of which employer's contributions totalled £369,000 (2009: £89,000) and employee's contributions totalled £nil (2009: £nil).

30. Post Balance Sheet Events

There are no material post Balance Sheet events.

31. Capital Commitments

Provision has not been made for the following capital commitments at 31st July 2010:

	Group	
	2010	*2009*
	£000	*£000*
Commitments contracted	1,912	3,193
Authorised but not contracted	3,116	2,000
	5,028	5,193

32. Financial commitments

At 31st July 2010 there were annual commitments under non-cancellable operating leases as follows:

	Group	
	2010	*2009*
	£000	*£000*
Other:		
Expiring within one year	89	148
Expiring between two to five years inclusive	52	131
Expiring in over five years	-	10
	141	289

33. Contingent Liability

There are no material contingent liabilities.

34. Related Party Transactions

There are no material related party transactions.

35. Access Funds

		Group	
	Childcare	*Hardship*	*Total*
	£000	*£000*	*£000*
At 1 August 2009	2	20	22
Funding Council grants	43	331	374
Disbursed to students	(45)	(344)	(389)
Balance unspent at 31 July 2010	-	7	7
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.

36. Financial Instruments

The University group has exposure to the following risks from the use of financial instruments:-

- Liquidity risk
- Credit risk
- Market risk

Liquidity risk
Liquidity risk is the risk that the group will not be able to meet its financial obligations as they fall due. The University's approach to managing liquidity is to ensure that it will have sufficient liquid funds to meet its liabilities as they fall due.

The group's key income sources are set out in notes 2 to 6 above. These income streams are considered by the University to be reliable and stress tests against the bank covenants in place show these income streams to be more than sufficient to satisfactorily service the existing level of debt.

Liquidity is managed by the use of the annual operating plan process and the monitoring of actual performance against budgets and forecasts.

The table below details the contractual maturities of financial liabilities.

	Carrying amount	*Contractual cash flows*	*Within one year*	*After more than one year*
	£000	*£000*	*£000*	*£000*
Financial liabilities				
Trade creditors and other payables	33,227	-	33,019	208
Other financial liabilities	20,000	-	-	20,000
	53,227	-	33,019	20,208

Credit risk
Credit risk is the risk of financial loss to the University group if a customer or counter party fails to meet its contractual obligations and arises from the trade receivables.

The maximum exposure to credit risk is represented by the carrying value of each financial asset in the balance sheet.

The University operates a debt management process including monitoring, escalation procedures and recourse to court action to recover monies outstanding. Provision is made for doubtful receivables upon the age of the debt and experience of collecting overdue debts. Cash and cash equivalents are held with banks which are not expected to fail.

The maximum exposure to credit risk at the reporting date was:-

	Carrying Amount	
	2010	*2009*
	£000	*£000*
Financial assets		
Trade debtors and other receivables	13,759	13,378
Cash and cash equivalents	12,733	9,474
	26,492	22,852

The movement in the impairment provision in respect of financial assets is set out in Note 15 above.

Financial Instruments (continued)

Market risk
Market risk is the risk that market prices such as interest rates, foreign exchange rates and equity prices will affect income or the value of holdings in financial instruments.

Interest rate risk

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

- A swap was 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 was 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 was 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.

At the balance sheet date the market risk of the University group's interest bearing financial instruments was as follows:-

	Carrying Amount	
	2010	*2009*
	£000	*£000*
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	20,000	20,000
	20,000	20,000

	Carrying Amount	
	2010	*2009*
	£000	*£000*
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	3,000
	20,000	23,000

Currency risk
The University group is exposed to currency risk on transactions and balances that are denominated in currencies other than sterling. Whenever practical, the University enters into agreements in its functional currency in order to minimise currency risks. The University group is exposed to currency risks from its activities conducted overseas but does not enter into any hedge arrangements and does not consider currency risk to be material.

Financial Instruments (continued)

Fair values
The fair values, together with the carrying amounts of financial assets and liabilities in the balance sheet are as follows:-

	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
	2010	*2010*	*2009*	*2009*
	£000	*£000*	*£000*	*£000*
Financial assets held for sale	-	-	-	-
Trade debtors and other receivables	13,759	13,759	13,378	13,378
Cash and cash equivalents	12,733	12,733	9,474	9,474
Trade creditors and other payables	(33,227)	(33,227)	(29,377)	(29,377)
	(6,735)	(6,735)	(6,525)	(6,525)

Estimation of fair values
The following methods and assumptions were used to estimates fair values:-

Financial assets held for sale	Based on an assessment of recoverable amounts
Trade debtors and other receivables	Fair value deemed to be the same as book value
Cash and cash equivalents	Fair value deemed to be the same as book value
Trade creditors and other payables	Fair value deemed to be the same as book value

MEMBERS OF COURT
At 15th November 2010

Chancellor	Baroness Susan Greenfield[1]	CBE, MA, Dphil, DSc, FRCP
Chairman of Court	The Rt Hon Lord George Penrose[1]	MA, LLB
Principal & Vice-Chancellor	Professor Steve Chapman[5]	FRSE, FRSC
	Professor Anton Muscatelli[4]	*FRSA, FRSE, AcSS*
Vice-Principal	*Professor Andrew C Walker[7]*	BA, MSc, PhD, CPhys, FInstP, FRSE
	Professor Julian C D Jones	OBE, FRSE, FInstP, BSc, PhD
City of Edinburgh	Councillor Tim McKay[1]	BSc, FCA, ASIP
Convocation	*Mr Graeme Bissett[1, 8]*	BA, CA
	Dr Shonaig Macpherson[1]	CBE, LIB, DUniv, FRSE
	Dr Judith McClure[1, 6]	CBE, MA, DPhil, FRSA, FSA
Senate	*Dr Robert Mochrie[2]*	BSc, MSc, PhD
	Dr Alexander Bell	BSc, PhD, DipEd, FHEA, MInstP, CPhys
	Dr Jennie Hansen	BA, MSc, PhD
	Professor James Ritchie	BSc, MSc, CEng, MIMechE, MIET, FHEA
	Professor Brian S Robertson[3]	Eur. Ing, BSc (Hons), CEng, MIET, MCIBSE, Hon.FSIET, FHKICE
Staff	Professor Dugald Duncan	BSc, PhD
	Mr Allan Gray	
	Ms Jane Queenan	LlB, MBA
Graduates	Mr Malcolm Durie[1,]	BSc, CEng
	Mr Gregor Colville[1]	MEng, MSc, DIC, CEng, FIES, MEI, MIEAust, AMIChemE, ProfGradMMM
Students Association	Mr Simon Eltringham	MSc
	Mr Murray J. Hope	BArch, BSc
Co-opted	Mr Neil Fraser[1]	BA
	Mr Iain McLaren[1]	BA, CA
	Dr Alan Parsley[1]	BSc, PhD
	Mr David Robinson[1]	MA, FFA
	Mr Ed Weeple[1, 2]	CB, MA
	Mr Andrew Muirhead[1, 3]	*FCIBS, MBA*
	(2 vacancies)	

[1] Lay Member of Court
[2] *Member until 31st July 2010*
[3] Member from 1st August 2010
[4] *Member until 31st August 2009*
[5] Member from 1st September 2009
[6] Member from March 2010
[7] *Member until 31st August 2010*
[8] *Member until March 2010*

MEMBERSHIP OF COMMITTEES OF COURT
At 15th November 2010

AUDIT COMMITTEE	Mr D G Robinson (Convener from 1 August 2010) *Mr E Weeple (Convener until July 2010)* Mr D A Brew *Mr J E Chambers (until December 2009)* Mr A Muirhead (from 1 August 2010) Dr A Parsley
EMERGENCY COMMITTEE	Lord G Penrose (Convener) Mr G Bissett [3] Professor S Chapman (from 1 September 2009) Professor D Duncan (from 28 September 2009) Mr N Fraser Professor J Jones (from 1 Aug 2010) Dr J McClure (from May 2010) *Professor A Muscatelli*[2] Mr D Robinson (from May 2010) *Professor A C Walker*[1] *Mr E Weeple* [1]
ESTATE STRATEGY COMMITTEE	Mr N Fraser (Convener) Professor S Chapman (from 1 September 2009) Mr J Draper Mr M Durie Mr R Durie Mr S Eltringham (from 1 August 2010) Dr E Finch Professor J Jones (from August 2010) *Professor A Muscatelli*[2] Lord G Penrose Ms J Queenan Professor J Ritchie (from 17 September 2009) *Professor A C Walker*[1] Professor J I B Wilson
FINANCE COMMITTEE	Mr I McLaren (Convener from 17 May 2010) *Mr G Bissett (Convener)*[3] Professor S Chapman (from 1 September 2009) Mr G Colville (from 22 March 2010)[2] Professor D Duncan (from 22 March 2010) Mr M Durie Mr N Fraser Professor J Jones (from 1 Aug 2010) Mr J Laurie Dr J McClure (from March 2010) *Professor A Muscatelli*[2] Lord G Penrose Mr R Perman *Professor A C Walker*[1]

MEMBERSHIP OF COMMITTEES OF COURT
At 15th November 2010

NOMINATING AND REVIEW COMMITTEE	Lord G Penrose (Convener) *Mr G Bissett*[3] Professor S Chapman (from 1 September 2009) Mr N Fraser Professor J Jones (from 1 August 2010) Mr I McLaren (from 17 May 2010) *Professor A Muscatelli*[2] Mr D Robinson (from May 2010) *Professor A C Walker*[1] *Mr E Weeple*[1]
REMUNERATION COMMITTEE	Lord G Penrose (Convener) *Mr G Bissett*[3] Dr J McClure Mr I McLaren (from 17 May 2010)
STAFFING STRATEGY COMMITTEE	Dr J McClure (Convener) Dr A Bell (from 28 September 2009) *Mr M Breaks (until 26 August 2009)* Professor S Chapman (from 1 September 2009) Mr A Gray (from 22 March 2010) Professor J Jones (from 1 August 2010) *Professor A Muscatelli*[2] Professor G H O Palmer Lord G Penrose Mr B Stewart Professor A C Walker
UNIVERSITY COLLECTIONS COMMITTEE	Mr M Durie (Convener) (from 1 August 2009) Professor S Chapman (from 1 September 2009) Professor R Craik Ms A Edgar Mr S Eltringham (from 1 August 2010) Dr J Hansen (from 28 September 2009) Professor A Harley (from 28 September 2009) Ms A Jones Ms M McMillan *Professor A Muscatelli*[2] Professor G Palmer Lord G Penrose Mr M Timmins
JOINT NEGOTIATING & CONSULTATIVE COMMITTEE (UCU/EIS/ULA)	**Court members;** Professor S Chapman (from 1 September 2009) Professor J Jones (from 1 Aug 2010) *Professor A Muscatelli*[2] Lord G Penrose Professor A C Walker *Mr E Weeple*[1]

[1] *Member until 31 July 2010*
[2] *Member until 31 August 2009*
[3] *Member until 16 March 2010*

COMMITTEE ATTENDANCE RECORD
At 15th November 2010

Summary of Court and Committee Attendance 2009-2010 (Members Only)

		Attendance										
Name	Dates to/from	**Court** 5 meetings	**Audit Committee** 6 meetings	**Estate Strategy Committee** 4 meetings	**Finance Committee** 4 meetings	**Joint Audit/Finance Committee** 1 meeting	**Staffing Strategy Committee** 4 meetings	**Nominating and Review Committee** 2 meetings	**Joint Negotiating & Consultative Committee (UCU)** 4 meetings	**Joint Negotiating & Consultative Committee (EIS/ULA)** 0 meetings	**Collections Committee** 1 meeting	**Endowment Committee** 2 meetings
Dr Alex Bell	SSC from 09/09	4/5					2/3					
Mr Graeme Bissett	FC Convenor & NRC to 03/10	4/5			3/3	1/1		1/1				0/2
Prof Steve Chapman	SSC, NRC & JNCC from 09/09	5/5		2/4	4/4		3/3	2/2	0/4		0/1	1/2
Mr Gregor Colville		5/5										
Prof Dugald Duncan		5/5										
Mr Malcolm Durie		3/5		3/4	4/4						1/1	1/2
Mr Simon Eltringham		4/5		1/4							0/1	
Mr Neil Fraser		4/5		3/4	0/4			1/2				
Mr Allan Gray	SSC from 03/10	4/5					2/2					
Baroness Susan Greenfield		0/5										
Dr Jennie Hansen		5/5										
Mr Murray Hope		4/5										
Ms Shonaig Macpherson		4/5										
Dr Judith McClure	FC from 03/10	3/5			3/3		4/4					
Councillor Tim Mckay		2/5										
Mr Iain McLaren		5/5			2/4	1/1						
Dr Robbie Mochrie		4/5										
Dr Alan Parsley		4/5	6/6			1/1						
Rt Hon Lord George Penrose		5/5		0/4	4/4		2/4	2/2	0/4		0/1	2/2
Ms Jane Queenan		4/5										
Prof James Ritchie		4/5		2/4								
Dr David Robinson	AC Convenor from 08/10	5/5	6/6			1/1						
Prof Andy Walker		5/5		3/4	3/4		2/4	2/2	3/4			2/2
Mr Ed Weeple	AC Convenor to 07/10	5/5	6/6			0/1		1/2				
Mr David Brew			5/6			0/1						
Mr John Chambers	AC to 12/09		2/3			1/1						
Mr John Draper				0/4								
Mr Roy Durie				4/4								
Dr Eddie Finch				0/4								
Ms Jane Queenan				3/4								
Prof John Wilson				3/4								
Mr Gregor Colville	FC from 03/10				2/2							
Prof Dugald Duncan	FC from 03/10				2/2							
Mr John Laurie					1/4	1/1						
Mr Ray Perman					3/4	0/1						
Prof Anton Muscatelli	SSC & NRC to 08/09						1/1	1/1				
Prof Geoff Palmer							2/4				0/1	
Mr Boyne Stewart							3/4					
Prof Ruth Aylett									4/4			

COMMITTEE ATTENDANCE RECORD
At 15th November 2010

		Attendance										
Name	Dates to/from	Court 5 meetings	Audit Committee 6 meetings	Estate Strategy Committee 4 meetings	Finance Committee 4 meetings	Joint Audit/Finance Committee 1 meeting	Staffing Strategy Committee 4 meetings	Nominating and Review Committee 2 meetings	Joint Negotiating & Consultative Committee (UCU) 4 meetings	Joint Negotiating & Consultative Committee (EIS/ULA) 0 meetings	Collections Committee 1 meeting	Endowment Committee 2 meetings
Prof Gillian Hogg									3/4			
Mr Ian Black									4/4			
Mr Greg Michaelson									1/4			
Dr Derek Jamieson									2/4			
Mr Peter Wilson									3/4			1/2
Dr Alex Fotheringham												
Mr Mark Parker												
Mr Mark Timmins											0/1	
Prof Julian Jones												
Prof Robert Craik											0/1	
Ms Edgar Edgar											1/1	
Mr David Guest											1/1	
Dr Jennie Hansen											1/1	
Prof Alison Harley											0/1	
Ms Ann Jones											1/1	
Prof Martin McCoustra											0/1	
Ms Maureen McMillan											1/1	
Ms Helen Taylor											1/1	
Ms Julie Forster												2/2

* In some cases professional commitments have prevented members from attending all committee meetings