

Annual Accounts and  
Financial Statements <sup>20</sup>**07**

For the year ended 31 July





HERIOT-WATT UNIVERSITY

Report and Financial Statements

Year Ended 31<sup>st</sup> July 2007

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## OPERATING AND FINANCIAL REVIEW

### **Strategic Positioning**

#### **Vision**

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

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

#### **Mission**

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

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

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

#### **Strategic Objective**

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

#### **Performance Objectives**

Our strategic objectives will be set and our performance will be assessed in future within a consistent monitoring framework which has two main pillars: Academic Profile and Financial Sustainability. Success in these two most important areas are fundamental to a university’s success and supporting evidence is provided by a series of key performance indicators that will monitor the university’s institutional health. This framework set by management has also been adopted by the report providing guidance to Governors that was published in 2006 by the Committee of University Chairmen<sup>1</sup>.

The CUC work was aimed at assisting Governors to comply with the Governance Code of Practice which includes the proposition that each Institution should adopt a Statement of Primary Responsibilities which directs the Governing Body:-

1. To approve the mission and strategic vision of the institution, long term academic and business plans and KPIs, and to ensure these meet the interests of stakeholders
2. To ensure processes are in place to monitor and evaluate the performance and effectiveness of the Institution, against the plans and approved KPIs, which should be, where possible and appropriate, benchmarked against other comparable institutions.

We are developing objectives and strategies to achieve measurable high performance for each of these pillars relative to all UK universities but in particular against other research-led universities, the most comparable set being the 1994 Group.

Our new long term strategic plan will be published in January 2008. It will reflect the emphasis on academic profile and financial sustainability, and will set the strategic vision for the institution for the next 5 to 10 years.

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<sup>1</sup> *The Monitoring of Institutional Performance and KPIs, November 2006, CUC*

## OPERATING AND FINANCIAL REVIEW

### **Resources**

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

#### **Locations**

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

#### **Research Facilities**

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

We have recently completed a comprehensive condition and compliance survey of the Riccarton estate that will enable us to develop a detailed investment plan to upgrade significant parts of the campus. The Dubai campus is a newly built facility at Academic City, which is continuing to attract new students. Our campus in Galashiels is the focus of a major multi-sponsor £31.4 million investment project to create an innovative shared campus for HE and FE provision and is scheduled for completion in 2009.

#### **Financial**

The Heriot-Watt University group has £74m of net assets and long term debt of circa £22m which is hedged with long term swaps. The group changed its principal banker this year and has negotiated a £40m revolving credit facility at competitive rates to support the funding of its strategic plan.

#### **People**

The University employs 1,538 people (expressed as full time equivalents), of whom 390 are academics. One of our objectives is to increase the ratio of academic to non-academic staff as we grow the University in size and stature. 2007 marked a significant milestone as it saw completion of the National Framework Agreement after three years of negotiation, preparation, job evaluation and re-grading. This could not have been achieved without the excellent relationships between university management and the staff representative bodies. The university now has a modern, flexible staff review and development framework that will be a key enabler in achieving our strategic objectives.

#### **Reputation**

Heriot-Watt's reputation for academic achievement is a core intangible asset on which our strategic ambition rests.

We are consistently in the top 20 Engineering and Physical Sciences Research Council research awarded universities in the UK. At the time of publication of this report submissions to the Research Assessment Exercise 2008 assessment will have been completed and we await the results with confidence. A new Director of Corporate Communications has been appointed to develop our communications strategy and to build on Heriot-Watt's reputation.

### **Risk and Uncertainty**

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

## OPERATING AND FINANCIAL REVIEW

Areas addressed by the risk register include:

1. Develop, fund and deliver the strategic plan.
2. Provide attractive courses and support facilities to students.
3. Maintain adequate funding of pension liabilities.
4. Achieve the Dubai Campus business plan.
5. RAE 2008 outcomes.
6. Future of student funding in Scotland (political risk) and the potential impact of student tuition fee funding in England on Scottish HEIs competitive position.

### **Stakeholder Relationships**

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

These are:

1. Students
2. Research Councils & other funding bodies
3. Scottish Funding Council
4. Staff
5. Alumni
6. Court
7. The community with which we engage
8. Industry & commerce
9. The society in which our graduates will play a leading role
10. Bankers

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

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

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

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

### **Current Development, Performance and Operation of University Business**

In February 2007 Professor Anton Muscatelli was appointed as Principal of the University replacing the Acting Principal, Professor John Simmons. A strategic review of the Academic Profile and Financial Sustainability of the University has been initiated by the new Principal which will be used to develop a five year strategic plan to be published early in 2008. The plan submitted to the Scottish Funding Council in June 2007 showed a rising surplus in its forward projections and the review will identify ways to further improve the University's financial strength to deliver financial sustainability.

### **Scope of the financial statements**

The financial statements which have been approved by the Court for the year-ended 31 July 2007 consolidate the transactions of the University and its subsidiary undertakings.

## OPERATING AND FINANCIAL REVIEW

### Results for the year

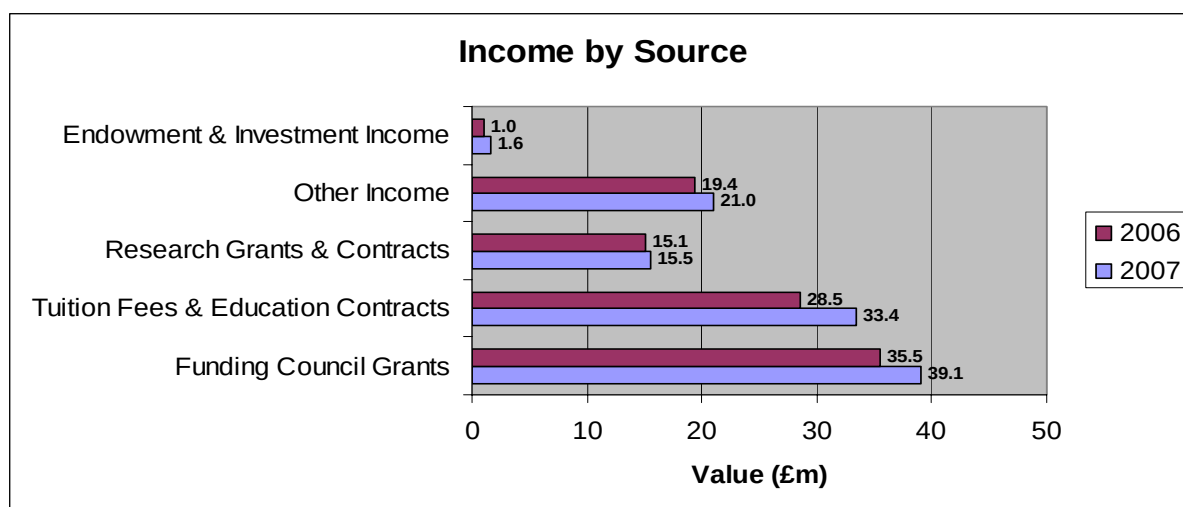
The group reported a surplus of £2.2 million for the year, which represents an increase of £1.1 million compared to the prior year and is £1.6 million ahead of budget.

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

|                                                 | 2007          | 2006         | 2005         | 2004         | 2003   |
|-------------------------------------------------|---------------|--------------|--------------|--------------|--------|
|                                                 | £m            | £m           | £m           | £m           | £m     |
| Income                                          | 110.6         | 99.5         | 94.6         | 90.9         | 87.3   |
| <i>Year on year change</i>                      | <i>+11.1%</i> | <i>+5.2%</i> | <i>+4.1%</i> | <i>+4.1%</i> |        |
| Expenditure                                     | (108.4)       | (98.4)       | (93.0)       | (89.6)       | (86.5) |
| <i>Year on year change</i>                      | <i>+10.2%</i> | <i>+5.8%</i> | <i>+3.8%</i> | <i>+3.6%</i> |        |
| Net surplus for the year                        | 2.2           | 1.1          | 1.6          | 1.3          | 0.8    |
| Underlying surplus excluding Pension adjustment | 1.4           | 1.2          | 1.7          | 1.3          | 0.8    |

The group's net surplus for 2006-07 increased by 100% compared to the prior year and was significantly ahead of budget, although this included a number of non-recurring items. In particular, the group benefited significantly from the reduction in its pension liabilities, as valued in accordance with Financial Reporting Standard 17.

In 2006-07 the University achieved income growth of 11.1% with total income increasing to £110.6 million. Positive income growth was recorded in all income categories, but with particularly strong growth from tuition fees and education contracts, as set out in the table below.



The University's sources of funding are widely diversified, as shown in the table above, and Heriot-Watt uses the public funds made available from the Scottish Funding Council (SFC) efficiently, with its total income being almost three times greater than its core base funding. In 2006-07 the recurrent grants received from the SFC for teaching and research increased by 5.1% (2006: 3.2%) and 19.5% (2006: 6.6%) respectively.

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

|                                | 2007 | <i>Change</i> | 2006 |
|--------------------------------|------|---------------|------|
|                                | £m   | %             | £m   |
| UK and European Union students | 9.4  | +11.5%        | 8.4  |
| Non-European Union students    | 13.3 | +21.0%        | 11.0 |



## OPERATING AND FINANCIAL REVIEW

Although positive growth was achieved research grants and contracts recorded the lowest rate of income growth during the year. However, considerable effort was expended during the year in new proposal work and Heriot-Watt continues to play a major role in the research pooling initiatives recently announced by SFC. Last year £7.3 million was awarded to the University in support of research collaborations with other Scottish Universities over a four year period and the University's research status has been further enhanced this year by a further £0.9 million award. Our academic colleagues excelled themselves this year with significant increases in both research proposals submitted and grants awarded. In 2006-07 our awards exceeded £30m, representing close to doubling our performance in this critical area in the run up to the RAE 2008. Further, at July 2007 our 'order book' of new awards (for projects not yet started, and thus not reflected in 'income') is now at its highest ever level.

The academic schools set ambitious growth targets each year, but the planned increase in the student cohort for 2006-07 was not achieved due to recruitment shortfalls, though the actual recruitment level achieved still represented a good level of growth year on year. As a consequence we scaled back our spending plans so as to ensure delivery of a surplus at the end of the year.

Investment by the Edinburgh Business School in restructuring its operations over the past two years is now paying off with better than budget results in 2006-07 and a strong start in 2007-08.

The conference market is becoming increasingly competitive and this is putting pressure on the Edinburgh Conference Centre business. The company has commissioned a marketing survey and is considering investment options to improve its competitive position as part of the university's strategic review.

Although income increased during the year, this was largely offset by increases in both staff costs and other operating costs. Finance costs decreased slightly during the year despite increased activity reflecting the continued focus on cash management.

|                          | 2007  | <i>Change</i> | 2006 |
|--------------------------|-------|---------------|------|
|                          | £m    | %             | £m   |
| Income                   | 110.6 | +11.1%        | 99.5 |
| Staff Costs              | 62.0  | +9.2%         | 56.8 |
| Other Operating Expenses | 39.6  | +11.1%        | 35.6 |
| Depreciation             | 5.0   | +16.3%        | 4.3  |
| Interest Payable         | 1.55  | -2.8%         | 1.6  |

### **Cash flow management**

The group has continued to focus on cash flow to ensure that both debt levels are controlled and that cash continues to be made available as necessary for educational activities for implementation of the strategic plan. This continued focus had a positive effect with consolidated net debt at the end of the financial year being reduced by 8% to £14.9 million.

The group cash flow statement nevertheless shows a net decrease in cash balances (£2.5 million) which is due to the impact of the decision, in the course of re-financing the group's loan facilities, to reduce short-term surplus cash balances by reducing the value of the outstanding bank loans.

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

The Edinburgh Business School [EBS] cash and debt balances are legally separate from those of the University. The net debt position for the University group excluding EBS is £22.1 million.

During the year the group tendered its banking services and subsequently appointed Barclays Plc. The outstanding bank loans were then repaid in two stages. In May 2007 the £8.3 million loan due to Clydesdale Bank was repaid from own resources and post year-end, in August 2007, the £18.9 million loan due to LloydsTSB Scotland was refinanced by drawing on facilities made available by Barclays. The existing interest swap arrangements have been retained and further facilities agreed that will secure core debt interest exposure.

## OPERATING AND FINANCIAL REVIEW

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 31 July 2007 there were 21 days (2006 - 24 days) of purchases in trade creditors. No interest was payable under the terms of the Late Payment of Commercial Debts (Interest) Act 1998.

### Capital projects

During the year investment increased by almost 50% to £7.9 million in additions made to the fabric and infrastructure of the capital base. This was partly funded by the receipt of capital grants of £5.5 million.

The principal focus of the spend during the year was on the new Postgraduate Centre and on the Co-location project with Borders College in Galashiels. At 31<sup>st</sup> July 2007 both projects were still in the course of construction. Further significant capital spend was also incurred to enhance existing research capabilities, funded by grants from the SRIF (Scientific Research Investment Fund) scheme.

Confirmation has been received of the Scottish Funding Council's intention to invest further capital in the HE sector (£40 million) in 2007-09 through the Learning & Teaching Infrastructure Fund (LTIF). Heriot-Watt's share of this welcome injection of capital, £1.5 million, will be combined with the group's own funds to accelerate improvements to the Learning & Teaching infrastructure.

A fundraising programme is underway with the objective of raising £5 million to support learning and teaching initiatives including the new Postgraduate Centre and an enhanced programme of student scholarships.

During the year, Audit Scotland published a report on the condition of Scottish Universities' estates and, as requested, Heriot-Watt provided input for this review. A superficial examination of the statistics implies we have a larger backlog than other Scottish institutions. However, the data provided by the University to the report was based upon our own, recently completed condition and compliance survey, which allowed us to provide more up to date data than that available from many of the other universities and was based on a comprehensive 100% inspection rather than a sample and included all legislative requirements. We are confident that we now have a robust base report from which to evolve our Estate Strategy; however, like most other universities, we have a considerable backlog problem to address.

### Student Numbers

The University's student numbers, expressed as full-time equivalents, for the current and the previous years were:

| <b>On Campus (Scotland)</b>                                    |               | 2007         | 2006         |
|----------------------------------------------------------------|---------------|--------------|--------------|
| Home/EU                                                        | Undergraduate | 4,790        | 4,699        |
|                                                                | Postgraduate  | 780          | 729          |
| International                                                  | Undergraduate | 376          | 405          |
|                                                                | Postgraduate  | 712          | 695          |
| Total                                                          |               | <u>6,658</u> | <u>6,528</u> |
| <b>External Programmes, Distance Learning and Dubai campus</b> |               |              |              |
|                                                                | Undergraduate | 1,092        | 1,330        |
|                                                                | Postgraduate  | 2,066        | 1,350        |
| Total                                                          |               | <u>3,158</u> | <u>2,680</u> |

Income from overseas students studying in Scotland is important but HWU also has students studying with approved learning partners worldwide and attending our campus in Dubai.

Student numbers at the Dubai campus reached 371 in 2006-07 and are expected to exceed 600 in 2007-08. The range of courses on offer at the campus has also been expanded due to market demand to a total of 31 courses. Thus, after a period of investment in its initial stage it is expected that the campus will achieve financial break-even during the forthcoming year.



This map demonstrates the reach of Heriot-Watt through its Approved Learning Partners.

### Year end position of the University

The balance sheet was considerably stronger at the end of July 2007 with Net Assets up £9m on the previous year. The principal reason for this was the reduction in pension fund liabilities, which decreased by over £8 million, but a positive impact was also seen from net operating surplus generated during the year by the University and its subsidiaries.

#### Year-end position

|                                   | 2007<br>£m | Change<br>% | 2006<br>£m |
|-----------------------------------|------------|-------------|------------|
| Pension Liability                 | (3.5)      | -70%        | (11.7)     |
| Net Assets Inc. Pension Liability | 74.3       | +13%        | 65.3       |
| Net Debt (group)                  | (14.9)     | -8%         | (16.2)     |

New banking arrangements have seen loans repaid and replaced with a revolving credit facility of £40m now available to provide funding capacity for the requirements of the strategic review once it concludes in January 2008. The SFC assessment of Financial Health based on Heriot-Watt's most recently submitted plan was SECURE in each of the three years.

During the year significant improvements were achieved in managing the group's trade debtors so as to reduce the value and number of the balances due. This was a particularly positive outcome given the strong increase in the group's total income during the year.

#### Value of debt due at year-end

|               | 2007<br>£m | Change<br>% | 2006<br>£m |
|---------------|------------|-------------|------------|
| Students      | 1.2        | -25%        | 1.6        |
| Commercial    | 3.2        | -29%        | 4.5        |
| Research      | 7.6        | +4%         | 7.3        |
| Gross Debtors | 12.0       | -10%        | 13.4       |
| Provision     | (1.1)      | -45%        | (2.0)      |
| Net Debtors   | 10.9       | -4%         | 11.4       |

## OPERATING AND FINANCIAL REVIEW

### Number of accounts receivable

|              | 2007         | Change      | 2006         |
|--------------|--------------|-------------|--------------|
|              | Number       | %           | Number       |
| Students     | 769          | -21%        | 968          |
| Commercial   | 241          | -20%        | 302          |
| Research     | 147          | +9%         | 135          |
| Total Number | <u>1,157</u> | <u>-18%</u> | <u>1,405</u> |

### **Main trends and factors influencing future performance**

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

#### **Academic Profile**

- The results of the 2008 Research Assessment Exercise
- The success of the research pooling projects
- The success of the Dubai Campus
- The success of the considerable number of new academic appointments made over the last year
- Future demographic trends in home market (falling student rolls at Scottish schools reducing the pool of potential undergraduates)
- Development of distance and distributed learning
- Implementing the National Framework (e.g. introducing a performance development review scheme)

#### **External Factors**

- Government regulation (price and volume controls, although the recent adjustment of the 'cap' on science, engineering and technology funded places was a welcome innovation )
- The Government's tighter than expected 2007-08 comprehensive spending review
- National negotiations on pension schemes, both funding and benefits
- Movements in base rates (impact on cost of borrowing & discount rates at a time when we are about to embark on a major investment plan)
- Movements in equity markets (affecting pension scheme assets and the pension liability exposure)
- Exchange rates (the perception of Heriot-Watt's sterling denominated fees in other countries)
- Continued increases in fuel and energy prices

#### **Corporate Activity to improve financial sustainability**

- Completion of the new Strategic Plan by January 2008, and its subsequent development and implementation
- Developing a consistent set of KPIs (recognising the guidelines set out in the CUC report referred to earlier) in line with the Strategic Plan
- Ability to better align debtor and creditor cash cycles to ensure cash to fund future expansion
- Completion of our new Postgraduate Centre in 2008
- Progressing the Borders Campus project with Borders College at Galashiels
- Developing a communication strategy to promote our new strategic plan to funders and financial supporters
- Development of an estate strategy to implement the findings of our comprehensive condition and compliance survey completed earlier this year.
- Undertaking 'process reviews' as an important next phase in the Strategic Review so as to identify improvements to our systems and processes to improve our effectiveness and efficiency (to include major projects on, for example, student administration service and re-structuring the academic year)
- Delivering the efficiency and effectiveness improvements identified by the performance review via the implementation of agreed recovery plans
- Rolling out a consistent risk management methodology (this has been reviewed and commended by the Court members who attend the Risk Management Strategy Group Meetings)
- Continued focus on strong governance

## OPERATING AND FINANCIAL REVIEW

### Employees

The implementation of the new National Framework agreement continued during the year. In August 2006 all employees were assimilated onto the common pay spine and, with effect from 1<sup>st</sup> October 2007, the University implemented new terms and conditions for all employees, including procedures and processes to encourage staff development and performance management

The improvement and modernisation of terms and conditions is a welcome benefit and we now have a more appropriate pay and conditions framework to encourage development of each individual as well as the university.

It has though resulted in a significant increase in the structural cost of the group. The cost of implementing both the agreement and of assimilating the employees onto the new pay scale resulted in an increase in staff costs of 8.3% compared to the prior year.

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

Students are represented on several Court Committees and on other management groups set up by the University's Planning and Management Executive, where their input is sought on matters affecting development of the University strategy. The University has had a long and successful track record of involving its students in influencing the University's key areas of performance.

In the National Student Survey 2006 the University scored 86% for overall student satisfaction, compared with a UK average of 82%, placing it 41<sup>st</sup> out of 137 higher education institutions.

### Donations

No donations in excess of £200 were made during 2006-07 to UK political and charitable 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, details of which are set out in note 31, which starts on page 40. All of these schemes provide benefits to members based on final pensionable pay. For 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.

Employer contributions payable for the year totalled £6.5 million, with contributions due to all three active schemes: the Universities Superannuation Scheme (USS), the Lothian Pension Fund (LPF) and the Scottish Teachers Superannuation Scheme (STSS) all increasing by more than the rate of inflation, driven by increasing payroll costs due to the implementation of the National Framework agreement and a further 1% increase in the employer contribution rate for the LPF scheme.

|                                         | 2007         | Change       | 2006         |
|-----------------------------------------|--------------|--------------|--------------|
|                                         | £000         | %            | £000         |
| <u>Employer Contributions</u>           |              |              |              |
| Universities Superannuation Scheme      | 4,542        | +8.0%        | 4,204        |
| Lothian Pension Fund                    | 1,908        | +12.2%       | 1,700        |
| Scottish Teachers Superannuation Scheme | 102          | +6.3%        | 96           |
| Total                                   | <u>6,552</u> | <u>+8.3%</u> | <u>6,000</u> |

## OPERATING AND FINANCIAL REVIEW

In common with other pension funds both USS and LPF are subject to triennial valuations of their scheme's assets and liabilities by professional actuaries and the most recent valuation reports published are as at 31<sup>st</sup> March 2005.

The March 2005 valuation of USS stated that the scheme was 126% funded using the Minimum Funding Requirement (MFR) assumptions introduced by the Pensions Act 2005 and 100% funded in terms of the Pension Protection Fund (PPF) regulations introduced by the Pensions Act 2004. However, using more conservative internally determined assumptions, it was determined that the assets of the scheme were 77% of the accrued liabilities based on projected pensionable salaries with a past service deficit of £6,568 million. No increase in the employer contribution rate was proposed and the Chief Executive's conclusion was that "The management committee considers that the funding objective, the valuation method and the assumptions underlying the valuation calculations together represent a satisfactory basis for the long-term funding of the benefits provided by USS".

The March 2005 valuation of LPF stated that, using internally determined assumptions, the scheme was 85% funded when comparing the ratio of assets to past service liabilities with a past service deficit of £358 million. For the scheme neither MFR nor PPF valuations are required and no such valuations were provided.

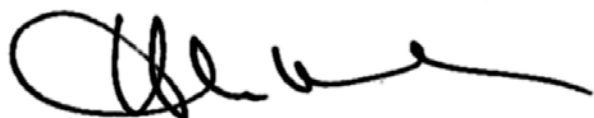
Following on from LPF's 2005 actuarial valuation there was a phased increase of 3% in the group's employer contribution rate, based on a valuation of its identifiable share of the scheme. This increase is being phased in three annual increments, commencing in April 2006. The second increase occurred during this financial year and the final increment will come into effect in April 2008.

### **Minority investments**

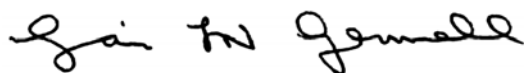
The group has had, for a number of years, a policy for the commercialisation of its research base, in some cases through the creation of 'spin-out' companies, in which it retains a minority investment. As at 31 July 2007 there were eleven investments (2006 - fifteen) in a range of different companies. 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.



*Principal & Chief Accounting Officer*



*Gavin J N Gemmell  
Chairman of Court*

### Introduction

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

In the opinion of the Court, the University complied with the Governance Code of Practice and General Principles and the provisions of the Code provided by the CUC throughout the year ended 31 July 2007. 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 six 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 four are ex officio. The Court has decided to move towards reducing its membership to twenty five members as existing members of Court come to the end of their term of office, as per the SFC guidelines, and this process is almost complete. The Court has responsibility for the University's strategic direction, reputation, financial well-being, the well-being of staff and students and, in association with the Senate, establishing and maintaining high standards of academic conduct and probity.

To discharge these responsibilities:

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

## CORPORATE GOVERNANCE STATEMENT

### Corporate Strategy

The University's strategy is documented in a plan which is reviewed and updated on an annual basis. This year the new Principal initiated a strategic review and the outcome of the review will be presented to Court in January 2008. Once approved, a copy of the plan is presented annually to the Funding Council.

### Statement of responsibilities of the University Court

The Court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University, and enable it to ensure that the financial statements are prepared in accordance with the University's Charter, the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, Accounts Directions from SFC and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and the Court of the University, the Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

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

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

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

The Court has taken reasonable steps to:

- ensure that funds from SFC are used only for the purposes for which they have been given and in accordance with the Financial Memorandum and any other conditions which the Funding Council may from time to time prescribe. Under the terms of the Financial Memorandum the designated officer, who is required to ensure such compliance, is the Principal and Vice-Chancellor.
- ensure that there are appropriate financial and other internal controls in place to safeguard public funds and funds from other sources. This system of internal control is continuously reviewed and developed in line with current best practice.
- safeguard the assets of the University and prevent and detect fraud.
- secure the economical, efficient and effective management of the University's resources and expenditure.
- ensure that the University management has an adequate system of internal control, and regularly monitors and reviews its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.
- maintain a safe and secure environment for the staff and students.



## CORPORATE GOVERNANCE STATEMENT

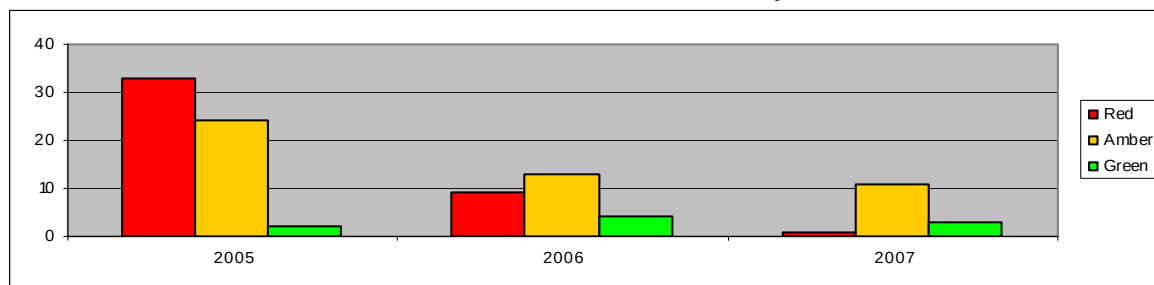
### Risk Management and Internal Controls

The University's system of internal financial control includes the following:

- definition of the responsibilities of, and the authority delegated to, heads of academic and administrative operating groups.
- A comprehensive planning process for each operating group, together with detailed annual income, expenditure, capital and cash flow budgets, overseen by the Deputy Principal (Strategy & Resources) together with the Director of Finance and the Director of Planning.
- Monthly reviews of financial results involving variance reporting and updates of forecast outturns and regular reviews of academic performance
- Clearly defined requirements for approval of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Court.
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Court.
- An Internal Audit function, contracted out to Scott Moncrieff, whose annual programme is approved by the Audit Committee and who reports to the Audit Committee. Considerable effort is made by management to ensure that, where possible, all recommendations from internal audit reports are implemented to agreed time plans.
- During the year management identified several areas with potentially significant weaknesses and prioritised the available internal audit resource to investigate them. However, from these investigations no recommendations in the highest category, being areas deemed of very high risk exposure raising major concerns that required immediate Court action, were made.
- Recommendations from the external auditors are also implemented to the agreed time plans with priority allocated in accordance with the ranking set out in the audit reports.
- A strategic risk management group, comprising lay members of Court and Management, meet regularly to identify, evaluate and manage the University's significant risks. A programme of risk management training has been started in 2007 and this will ensure that all School and Department Heads and their management teams are re-trained in the latest risk management techniques.

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

The number of external audit recommendations made over the last three years was:-



At the Court meeting on 10<sup>th</sup> December 2007, the Audit Committee convenor expressed satisfaction at the University's approach to improving internal controls.

### Going Concern

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

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

We have audited the group and parent University financial statements of Heriot-Watt University for the year ended 31 July 2007 which comprise the group Income and Expenditure Account, the group and parent University Balance Sheets, the group Cash Flow Statement, the group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

**Respective responsibilities of the University Court and Auditors**

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

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

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

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

**Basis of audit opinion**

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

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

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

**Opinion**

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the group and parent University as at 31 July 2007 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 2007 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2007 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Scottish Funding Council.

*KPMG LLP*

**KPMG LLP**  
*Chartered Accountants*  
*Registered Auditor*

17 December 2007

Saltire Court  
20 Castle Terrace  
Edinburgh  
EH1 2EG

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CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDING 31<sup>st</sup> July 2007

|                                                                                                | <i>Note</i> | <i>2007<br/>£000</i> | <i>2006<br/>£000</i> |
|------------------------------------------------------------------------------------------------|-------------|----------------------|----------------------|
| <b>Income</b>                                                                                  |             |                      |                      |
| Funding Council Grants                                                                         | 2           | 39,082               | 35,554               |
| Tuition Fees and Education Contracts                                                           | 3           | 33,378               | 28,476               |
| Research Grants and Contracts                                                                  | 4           | 15,493               | 15,123               |
| Other Income                                                                                   | 5           | 20,977               | 19,417               |
| Endowment and Investment Income                                                                | 6           | 1,634                | 975                  |
| Total income                                                                                   |             | <u>110,564</u>       | <u>99,545</u>        |
| <b>Expenditure</b>                                                                             |             |                      |                      |
| Staff Costs                                                                                    | 7           | 62,020               | 56,798               |
| Other Operating Expenses                                                                       | 8           | 39,580               | 35,638               |
| Depreciation                                                                                   | 11          | 4,969                | 4,269                |
| Interest Payable                                                                               | 9           | 1,552                | 1,596                |
| Total expenditure                                                                              | 10          | <u>108,121</u>       | <u>98,301</u>        |
| Surplus on continuing operations after depreciation of tangible assets and before taxation     |             | 2,443                | 1,244                |
| (Loss) / gain on disposal of assets                                                            |             | (3)                  | 5                    |
| Surplus on continuing operations after depreciation and disposal of assets but before taxation |             | <u>2,440</u>         | <u>1,249</u>         |
| Taxation                                                                                       |             | -                    | -                    |
| Surplus on continuing operations after depreciation and disposal of assets and taxation        |             | <u>2,440</u>         | <u>1,249</u>         |
| Transfer from accumulated income to specific endowments and restricted funds                   |             | (267)                | (138)                |
| <b>Net surplus for the year retained within general reserves</b>                               | 25          | <u><b>2,173</b></u>  | <u><b>1,111</b></u>  |

All transactions are in respect of continuing operations.

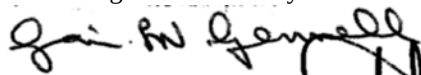
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES  
FOR THE YEAR ENDING 31 JULY 2007

|                                                                            |             |               | <i>Re-stated</i> |
|----------------------------------------------------------------------------|-------------|---------------|------------------|
|                                                                            | <i>Note</i> | <i>2007</i>   | <i>2006</i>      |
|                                                                            |             | <i>£000</i>   | <i>£000</i>      |
| Surplus on Continuing Operations after Depreciation of Assets at Valuation |             | 2,173         | 1,111            |
| Appreciation of endowment asset investments                                | 15          | 245           | 381              |
| New endowments                                                             | 15          | 1,534         | 207              |
| Actuarial gain in respect of pension schemes                               |             | 7,549         | 1,818            |
| <b>Total recognised gains relating to the year</b>                         |             | <b>11,501</b> | <b>3,517</b>     |
| Prior year adjustment                                                      |             | -             | (13,263)         |
| <b>Total recognised gains / (losses) since last financial statements</b>   |             | <b>11,501</b> | <b>(9,746)</b>   |
| <br><b>Reconciliation</b>                                                  |             |               |                  |
| Opening reserves and endowments                                            |             | 21,326        | 17,809           |
| Total recognised gains relating to the year                                |             | 11,501        | 3,517            |
| <b>Closing general reserve and endowments</b>                              |             | <b>32,827</b> | <b>21,326</b>    |

BALANCE SHEETS  
AS AT 31<sup>st</sup> JULY 2007

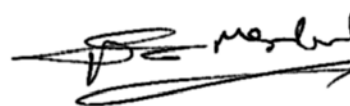
|                                                                |      | Group                |                      | University           |                      |
|----------------------------------------------------------------|------|----------------------|----------------------|----------------------|----------------------|
|                                                                | Note | 2007<br>£000         | 2006<br>£000         | 2007<br>£000         | 2006<br>£000         |
| Fixed Assets                                                   |      |                      |                      |                      |                      |
| Tangible Assets                                                | 11   | 100,881              | 97,974               | 89,886               | 86,768               |
| Intangible Assets                                              | 12   | 312                  | 216                  | -                    | -                    |
| Investments                                                    | 13   | 2,606                | 2,315                | 7,160                | 7,186                |
| Total Fixed Assets                                             |      | <u>103,799</u>       | <u>100,505</u>       | <u>97,046</u>        | <u>93,954</u>        |
| Endowment Assets                                               | 15   | <u>8,705</u>         | <u>6,926</u>         | <u>6,909</u>         | <u>5,261</u>         |
| Stock                                                          |      | 5                    | 21                   | -                    | -                    |
| Debtors                                                        | 16   | 19,473               | 13,810               | 23,769               | 16,944               |
| Cash at Bank and in Hand                                       |      | 9,016                | 11,555               | 3,496                | 7,402                |
|                                                                |      | <u>28,494</u>        | <u>25,386</u>        | <u>27,265</u>        | <u>24,346</u>        |
| Less: Creditors - Amounts falling due within one year          | 17   | <u>(37,342)</u>      | <u>(26,061)</u>      | <u>(36,916)</u>      | <u>(25,760)</u>      |
| Net Current Liabilities                                        |      | <u>(8,848)</u>       | <u>(675)</u>         | <u>(9,651)</u>       | <u>(1,414)</u>       |
| Total Assets Less Current Liabilities                          |      | 103,656              | 106,756              | 94,304               | 97,801               |
| Less: Creditors - Amounts falling due after more than one year | 18   | <u>(25,445)</u>      | <u>(29,238)</u>      | <u>(25,415)</u>      | <u>(29,044)</u>      |
| Less: Provisions for liabilities and charges                   | 19   | <u>(406)</u>         | <u>(508)</u>         | <u>(406)</u>         | <u>(508)</u>         |
| Net Assets Excluding Pension Liability                         |      | <u>77,805</u>        | <u>77,010</u>        | <u>68,483</u>        | <u>68,249</u>        |
| Pension Liability                                              | 32   | <u>(3,480)</u>       | <u>(11,743)</u>      | <u>(3,480)</u>       | <u>(11,607)</u>      |
| <b>Net Assets Including Pension Liability</b>                  |      | <b><u>74,325</u></b> | <b><u>65,267</u></b> | <b><u>65,003</u></b> | <b><u>56,642</u></b> |
| Deferred Capital Grants                                        | 20   | 41,066               | 43,775               | 39,285               | 41,951               |
| Specific Endowments                                            | 21   | 8,705                | 6,926                | 6,909                | 5,261                |
| Restricted Funds                                               | 22   | 177                  | 171                  | -                    | -                    |
| Investment Reserve                                             | 23   | 258                  | (5)                  | -                    | -                    |
| Other Reserve                                                  | 24   | (3)                  | -                    | -                    | -                    |
| General Reserve                                                | 25   | 27,602               | 26,143               | 22,289               | 21,037               |
| Total Funds Excluding Pension Liability                        |      | <u>77,805</u>        | <u>77,010</u>        | <u>68,483</u>        | <u>68,249</u>        |
| Pension Reserve                                                | 25   | <u>(3,480)</u>       | <u>(11,743)</u>      | <u>(3,480)</u>       | <u>(11,607)</u>      |
| <b>Total Funds Including Pension Liability</b>                 |      | <b><u>74,325</u></b> | <b><u>65,267</u></b> | <b><u>65,003</u></b> | <b><u>56,642</u></b> |

The Financial Statements on pages 17 to 48 were approved by the University Court on 10<sup>th</sup> December 2007 and were signed its behalf by:-




Gavin J N Gemmell  
Chairman of Court

Prof. Anton Muscatelli  
Principal & Chief Accounting Officer



Phil McNaul  
Director of Finance & IS/IT

CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDING 31<sup>st</sup> July 2007

|                                                  | <i>Note</i> | <i>2007</i><br><i>£000</i> | <i>2006</i><br><i>£000</i> |
|--------------------------------------------------|-------------|----------------------------|----------------------------|
| Cash inflow from operating activities            | 26          | 4,329                      | 4,744                      |
| Returns on investment and servicing of finance   | 27          | (132)                      | (820)                      |
| Capital expenditure and financial investment     | 28          | (2,858)                    | (2,340)                    |
| Financing                                        | 29          | (3,878)                    | (684)                      |
| <b>(Decrease) / Increase in cash in the year</b> |             | <b><u>(2,539)</u></b>      | <b><u>900</u></b>          |

**Reconciliation Of Net Cash Flow To Movement In Net Debt**

|                                           |           |                        |                        |
|-------------------------------------------|-----------|------------------------|------------------------|
| (Decrease) / Increase in cash in the year |           | (2,539)                | 900                    |
| Financing                                 |           | 3,878                  | 684                    |
| Movement in net debt                      |           | <u>1,339</u>           | <u>1,584</u>           |
| Net debt brought forward                  |           | (16,197)               | (17,781)               |
| <b>Net debt carried forward</b>           | <i>30</i> | <b><u>(14,858)</u></b> | <b><u>(16,197)</u></b> |

## NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

### 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 2003 and in accordance with applicable accounting standards.

#### ***Basis of accounting***

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

#### ***Basis of consolidation***

These financial statements, and associated notes, reflect the group income and expenditure account, statement of total recognised gains and losses and cash flow statement for the year ended 31 July. Balance sheets, and their associated notes, as at 31 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 13 and 14, 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 in Note 10.

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.

#### ***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.



NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

***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 externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. Heriot-Watt is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

**LPF**

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

**STSS**

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

**SPS**

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

## NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

### ***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.

### ***Tangible fixed assets***

Land and buildings are included in the balance sheet at historical cost and are depreciated on a straight line basis over their expected useful economic life of 50 years. Freehold land is not depreciated. Where land and buildings are acquired or built with the aid of specific grants they are capitalised and depreciated as above.

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.

Capitalised equipment is depreciated on a straight line basis over its expected useful economic life as follows:

|                      |            |
|----------------------|------------|
| Plant                | - 15 years |
| General equipment    | - 5 years  |
| Computers            | - 5 years  |
| Furniture & fittings | - 5 years  |
| Motor vehicles       | - 4 years  |

Capitalised equipment for sponsored research is depreciated on a straight line basis over the life of the related research grant or contract.

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

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

### ***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.

### ***Capital grants***

Capital grants received are credited to a deferred capital grant creditor 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 assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Stocks**

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.

**Maintenance of premises**

The cost of routine corrective maintenance is charged to the income and expenditure account in the period that it is incurred.

**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. Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction.

**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.

**Taxation**

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

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The subsidiaries, excluding the Edinburgh Business School, transfer their annual profits to the University by gift aid. In certain circumstances Value Added Tax is recoverable, but where this is not possible the cost is included in the relevant expenditure.

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

**Gift Aid**

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

**2. Funding Council Grants**

|                                          | <i>Group</i>  |               |
|------------------------------------------|---------------|---------------|
|                                          | <i>2007</i>   | <i>2006</i>   |
|                                          | <i>£000</i>   | <i>£000</i>   |
| Recurrent Teaching Grant                 | 24,245        | 23,078        |
| Funding for Increased STSS Contributions | 50            | 67            |
| Recurrent Research Grant                 | 12,269        | 10,263        |
| LTIF Grants                              | 281           | 138           |
| Release of Deferred Capital Grants       | 1,600         | 1,378         |
| Other Grants                             | 637           | 630           |
|                                          | <u>39,082</u> | <u>35,554</u> |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**3. Tuition Fees and Education Contracts**

|                                  | <i>Group</i>  |               |
|----------------------------------|---------------|---------------|
|                                  | <i>2007</i>   | <i>2006</i>   |
|                                  | <i>£000</i>   | <i>£000</i>   |
| UK Higher education students     | 7,192         | 6,740         |
| European Union students (ex. UK) | 2,224         | 1,702         |
| Non European Union students      | 13,330        | 11,011        |
| Higher education contracts       | 5,157         | 3,915         |
| Research training support grants | 2,582         | 2,139         |
| Short course fees                | 1,171         | 1,402         |
| Examination and graduation fees  | 1,722         | 1,567         |
|                                  | <u>33,378</u> | <u>28,476</u> |

**4. Research Grants and Contracts**

|                   | <i>Group</i>  |               |
|-------------------|---------------|---------------|
|                   | <i>2007</i>   | <i>2006</i>   |
|                   | <i>£000</i>   | <i>£000</i>   |
| Research councils | 6,596         | 6,463         |
| Charities         | 414           | 375           |
| UK government     | 1,842         | 1,310         |
| UK industry       | 3,258         | 3,604         |
| EU Commission     | 1,197         | 1,398         |
| Other sources     | 2,186         | 1,973         |
|                   | <u>15,493</u> | <u>15,123</u> |

**5. Other Income**

|                                      | <i>Group</i>  |               |
|--------------------------------------|---------------|---------------|
|                                      | <i>2007</i>   | <i>2006</i>   |
|                                      | <i>£000</i>   | <i>£000</i>   |
| Residences, catering and conferences | 10,850        | 10,827        |
| Other services rendered              | 3,425         | 3,373         |
| Royalties                            | 45            | 402           |
| Donations                            | 986           | 956           |
| Release from deferred capital grants | 296           | 298           |
| Other income                         | 5,375         | 3,561         |
|                                      | <u>20,977</u> | <u>19,417</u> |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**6. Endowment and Investment Income**

|                                       | <i>Group</i> |             |
|---------------------------------------|--------------|-------------|
|                                       | <i>2007</i>  | <i>2006</i> |
|                                       | <i>£000</i>  | <i>£000</i> |
| Income from specific endowment assets | 460          | 334         |
| Income from restricted funds          | 21           | 3           |
| Net return on pension assets          | 371          | 82          |
| Other investment income               | 6            | 16          |
| Other interest receivable             | 776          | 540         |
|                                       | <u>1,634</u> | <u>975</u>  |

**7. Staff Costs**

|                       | <i>Group</i>  |               |
|-----------------------|---------------|---------------|
|                       | <i>2007</i>   | <i>2006</i>   |
|                       | <i>£000</i>   | <i>£000</i>   |
| Wages and salaries    | 51,690        | 46,668        |
| Social security costs | 4,194         | 3,930         |
| Other pension costs   | 6,136         | 6,200         |
|                       | <u>62,020</u> | <u>56,798</u> |

Analysed between:

|                                   | <i>Group</i>  |               |
|-----------------------------------|---------------|---------------|
|                                   | <i>2007</i>   | <i>2006</i>   |
|                                   | <i>£000</i>   | <i>£000</i>   |
| Academic                          | 24,000        | 21,719        |
| Academic support                  | 18,295        | 16,957        |
| Other support                     | 1,298         | 1,111         |
| Administrative & central services | 10,198        | 9,559         |
| Estates                           | 3,547         | 3,290         |
| Catering and residences           | 4,605         | 3,907         |
| Other                             | 77            | 255           |
|                                   | <u>62,020</u> | <u>56,798</u> |

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

|                                   | <i>Number</i> | <i>Number</i> |
|-----------------------------------|---------------|---------------|
| Academic                          | 390           | 381           |
| Academic support                  | 504           | 512           |
| Other support                     | 39            | 36            |
| Administrative & central services | 268           | 255           |
| Estates                           | 123           | 122           |
| Catering and residences           | 198           | 204           |
| Other                             | 16            | 17            |
|                                   | <u>1,538</u>  | <u>1,527</u>  |

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Staff Costs (continued)**

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

|                     | 2007<br>£000 | 2006<br>£000 |
|---------------------|--------------|--------------|
| £70,001 - £80,000   | 13           | 10           |
| £80,001 - £90,000   | 7            | 6            |
| £90,001 - £100,000  | 3            | 11           |
| £100,001 - £110,000 | 8            | 3            |
| £110,001 - £120,000 | 6            | 1            |
| £120,001 - £130,000 | 3            | 1            |
| £130,001 - £140,000 | 2            | -            |
| £190,001 - £200,000 | 1            | 1            |
|                     | <u>43</u>    | <u>33</u>    |

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

|                       | 2007<br>£000 | 2006<br>£000 |
|-----------------------|--------------|--------------|
| Salary                | 168          | 181          |
| Benefits in kind      | 8            | 12           |
|                       | <u>176</u>   | <u>193</u>   |
| Pension contributions | <u>21</u>    | <u>25</u>    |

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

Costs of £1,637 (2006: £1,609) 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.

On 1<sup>st</sup> February 2007 the University appointed a new Principal and Chief Accounting Officer, Prof. Anton Muscatelli, in the place of the then Acting Principal and Chief Accounting Officer, Prof. John Simmons. The emoluments payable to each of the two officeholders during the year were £72,000 and £79,000 respectively and pension contributions were £11,000 and £10,000 respectively. Also included in emoluments is £25,000 representing a payment to the previous Principal and Chief Accounting Officer who left office on 31<sup>st</sup> July 2006.

**8. Other Operating Expenses**

|                                                      | Group<br>2007<br>£000 | 2006<br>£000 |
|------------------------------------------------------|-----------------------|--------------|
| Other operating expenses include:                    |                       |              |
| * External auditors' remuneration - audit            | 50                    | 60           |
| External auditors' remuneration – non-audit services | 91                    | 43           |
| ** Internal auditors' remuneration                   | 71                    | 63           |
| Loss / (Profit) on disposal of tangible fixed assets | 3                     | (5)          |
| Hire of other assets - operating leases - other      | 583                   | 513          |
| Finance lease charges                                | 3                     | 3            |
| * Inc. £31,304 for Heriot-Watt University            |                       |              |
| ** Inc. £70,533 for Heriot-Watt University           |                       |              |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**9. Interest Payable**

|                                                 | <i>Group</i> |              |
|-------------------------------------------------|--------------|--------------|
|                                                 | <i>2007</i>  | <i>2006</i>  |
|                                                 | <i>£000</i>  | <i>£000</i>  |
| Finance lease interest                          | 3            | 3            |
| On bank loans:                                  |              |              |
| Repayable within 5 years, by instalments        | 2            | 2            |
| Repayable wholly or partly in more than 5 years | 1,547        | 1,591        |
|                                                 | <u>1,552</u> | <u>1,596</u> |

**10. Analysis of Expenditure By Activity**

|                                          | <i>Group - 2007</i> |               |                  |                 |                |
|------------------------------------------|---------------------|---------------|------------------|-----------------|----------------|
|                                          | <i>Staff</i>        |               | <i>Other</i>     | <i>Interest</i> |                |
|                                          | <i>Costs</i>        | <i>Dep'n.</i> | <i>Operating</i> | <i>Payable</i>  | <i>Total</i>   |
|                                          | <i>£000</i>         | <i>£000</i>   | <i>Expenses</i>  | <i>£000</i>     | <i>£000</i>    |
| Academic departments                     | 32,522              | 913           | 6,320            | -               | 39,755         |
| Academic services                        | 3,378               | 185           | 2,706            | -               | 6,269          |
| General educational                      | 1,412               |               | 7,146            | -               | 8,558          |
| Premises                                 | 3,883               | 3,004         | 5,640            | -               | 12,527         |
| Administration                           | 6,559               | 269           | 1,772            | -               | 8,600          |
| Student facilities                       | 1,646               | 59            | 725              | -               | 2,430          |
| Other expenses                           | 75                  |               | 6                | 1,552           | 1,633          |
| Research grants and contracts            | 7,218               | 453           | 6,214            | -               | 13,885         |
| Residences, catering and conference      | 4,112               | 42            | 4,904            | -               | 9,058          |
| Other services rendered                  | 1,215               | 44            | 2,465            | -               | 3,724          |
| Equipment                                |                     |               | 1,682            | -               | 1,682          |
| Total per Income and Expenditure Account | <u>62,020</u>       | <u>4,969</u>  | <u>39,580</u>    | <u>1,552</u>    | <u>108,121</u> |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**Analysis of Expenditure By Activity (continued)**

|                                          | <i>Group - 2006</i> |               |                  |                 |               |
|------------------------------------------|---------------------|---------------|------------------|-----------------|---------------|
|                                          | <i>Staff</i>        | <i>Dep'n.</i> | <i>Operating</i> | <i>Interest</i> | <i>Total</i>  |
|                                          | <i>Costs</i>        | <i>£000</i>   | <i>Expenses</i>  | <i>Payable</i>  | <i>£000</i>   |
|                                          | <i>£000</i>         | <i>£000</i>   | <i>£000</i>      | <i>£000</i>     | <i>£000</i>   |
| Academic departments                     | 29,950              | 745           | 5,823            | -               | 36,518        |
| Academic services                        | 2,629               | 111           | 2,105            | -               | 4,845         |
| General educational                      | 1,243               | -             | 4,572            | -               | 5,815         |
| Premises                                 | 3,242               | 2,526         | 5,350            | -               | 11,118        |
| Administration                           | 6,388               | 224           | 2,089            | -               | 8,701         |
| Student facilities                       | 1,389               | 46            | 1,459            | -               | 2,894         |
| Other expenses                           | 70                  | -             | -                | 1,596           | 1,666         |
| Research grants and contracts            | 6,591               | 572           | 6,672            | -               | 13,835        |
| Residences, catering and conferences     | 3,909               | 29            | 4,679            | -               | 8,617         |
| Other services rendered                  | 1,387               | 16            | 1,148            | -               | 2,551         |
| Equipment                                | -                   | -             | 1,741            | -               | 1,741         |
| Total per Income and Expenditure Account | <u>56,798</u>       | <u>4,269</u>  | <u>35,638</u>    | <u>1,596</u>    | <u>98,301</u> |

**11. Tangible Fixed Assets**

|                          | <i>Freehold</i>             | <i>Equipment</i> | <i>Work In</i>  | <i>Total</i>   |
|--------------------------|-----------------------------|------------------|-----------------|----------------|
|                          | <i>Land &amp; Buildings</i> | <i>£000</i>      | <i>Progress</i> | <i>£000</i>    |
|                          | <i>£000</i>                 | <i>£000</i>      | <i>£000</i>     | <i>£000</i>    |
| <b>Group</b>             |                             |                  |                 |                |
| <b>Cost</b>              |                             |                  |                 |                |
| At 1 August 2006         | 123,701                     | 22,764           | 2,006           | 148,471        |
| Additions                | 859                         | 2,257            | 4,763           | 7,879          |
| Disposals                | -                           | (153)            | -               | (153)          |
| At 31 July 2007          | <u>124,560</u>              | <u>24,868</u>    | <u>6,769</u>    | <u>156,197</u> |
| <b>Depreciation</b>      |                             |                  |                 |                |
| At 1 August 2006         | 33,493                      | 17,004           | -               | 50,497         |
| Charge for year          | 2,872                       | 2,097            | -               | 4,969          |
| Eliminated on disposals  | -                           | (150)            | -               | (150)          |
| At 31 July 2007          | <u>36,365</u>               | <u>18,951</u>    | <u>-</u>        | <u>55,316</u>  |
| <b>Net Book Value</b>    |                             |                  |                 |                |
| At 31 July 2007          | <u>88,195</u>               | <u>5,917</u>     | <u>6,769</u>    | <u>100,881</u> |
| At 1 August 2006         | <u>90,208</u>               | <u>5,760</u>     | <u>2,006</u>    | <u>97,974</u>  |
| Analysed between:        |                             |                  |                 |                |
|                          | <i>£000</i>                 | <i>£000</i>      | <i>£000</i>     | <i>£000</i>    |
| Funded by capital grants | 38,927                      | 2,139            | -               | 41,066         |
| Own funded               | 49,268                      | 3,778            | 6,769           | 59,815         |
| At 31 July 2007          | <u>88,195</u>               | <u>5,917</u>     | <u>6,769</u>    | <u>100,881</u> |



NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**Tangible Fixed Assets (continued)**

|                         | <i>Freehold<br/>Land &amp; Buildings</i> | <i>Equipment<br/>£000</i> | <i>Work In<br/>Progress<br/>£000</i> | <i>Total<br/>£000</i> |
|-------------------------|------------------------------------------|---------------------------|--------------------------------------|-----------------------|
| <b>University</b>       |                                          |                           |                                      |                       |
| <b>Cost</b>             |                                          |                           |                                      |                       |
| At 1 August 2006        | 111,984                                  | 21,967                    | 1,947                                | 135,898               |
| Additions               | 859                                      | 2,169                     | 4,707                                | 7,735                 |
| Eliminated on disposals | -                                        | (147)                     | -                                    | (147)                 |
| At 31 July 2007         | <u>112,843</u>                           | <u>23,989</u>             | <u>6,654</u>                         | <u>143,486</u>        |
| <b>Depreciation</b>     |                                          |                           |                                      |                       |
| At 1 August 2006        | 32,510                                   | 16,620                    | -                                    | 49,130                |
| Charge for year         | 2,638                                    | 1,979                     | -                                    | 4,617                 |
| Eliminated on Disposals | -                                        | (147)                     | -                                    | (147)                 |
| At 31 July 2007         | <u>35,148</u>                            | <u>18,452</u>             | <u>-</u>                             | <u>53,600</u>         |
| <b>Net Book Value</b>   |                                          |                           |                                      |                       |
| At 31 July 2007         | <u>77,695</u>                            | <u>5,537</u>              | <u>6,654</u>                         | <u>89,886</u>         |
| At 1 August 2006        | <u>79,474</u>                            | <u>5,347</u>              | <u>1,947</u>                         | <u>86,768</u>         |

Analysed between:

|                          | <i>£000</i>   | <i>£000</i>  | <i>£000</i>  | <i>£000</i>   |
|--------------------------|---------------|--------------|--------------|---------------|
| Funded by capital grants | 37,146        | 2,139        | -            | 39,285        |
| Own funded               | 40,549        | 3,398        | 6,654        | 50,601        |
| At 31 July 2007          | <u>77,695</u> | <u>5,537</u> | <u>6,654</u> | <u>89,886</u> |

The net book value of the group's tangible fixed assets includes an amount of £33,060 (2006 - £51,884) in respect of assets held under finance leases. The depreciation charge on these assets for the year was £18,824 (2006 - £18,825).

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

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

Included in cost for the group is £6,769,000 (2006: £2,006,000) relating to assets in the course of construction, of which £6,354,000 (2006: £1,964,000) relates to freehold land and buildings and £415,000 (2006: £42,000) relates to equipment.

Included in cost for the University is £6,654,000 (2006: £1,947,000) relating to assets in the course of construction, of which £6,239,000 (2006: £1,532,000) relates to freehold land and buildings and £415,000 (2006: £42,000) relates to equipment.

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**12. Intangible Fixed Assets**

|                               | <i>Goodwill</i> | <i>Course materials</i> | <i>Total</i> |
|-------------------------------|-----------------|-------------------------|--------------|
|                               | <i>£000</i>     | <i>£000</i>             | <i>£000</i>  |
| <b>Group &amp; University</b> |                 |                         |              |
| <b>Cost</b>                   |                 |                         |              |
| At 1 August 2006              | -               | 524                     | 524          |
| Additions                     | 172             | -                       | 172          |
| At 31 July 2007               | <u>172</u>      | <u>524</u>              | <u>696</u>   |
| <b>Amortisation</b>           |                 |                         |              |
| At 1 August 2006              | -               | 308                     | 308          |
| Charge for year               | 4               | 72                      | 76           |
| At 31 July 2007               | <u>4</u>        | <u>380</u>              | <u>384</u>   |
| <b>Net Book Value</b>         | <u>168</u>      | <u>144</u>              | <u>312</u>   |
| At 31 July 2007               |                 |                         |              |
| At 1 August 2006              | <u>-</u>        | <u>216</u>              | <u>216</u>   |

**13. Investments**

|                                                 | <i>Group</i> |              | <i>University</i> |              |
|-------------------------------------------------|--------------|--------------|-------------------|--------------|
|                                                 | <i>2007</i>  | <i>2006</i>  | <i>2007</i>       | <i>2006</i>  |
|                                                 | <i>£000</i>  | <i>£000</i>  | <i>£000</i>       | <i>£000</i>  |
| Listed investments on the London Stock Exchange | 2,551        | 2,260        | -                 | -            |
| Investment in subsidiary companies at cost      | -            | -            | 7,105             | 7,131        |
| Minority investments in unquoted companies      | 55           | 55           | 55                | 55           |
|                                                 | <u>2,606</u> | <u>2,315</u> | <u>7,160</u>      | <u>7,186</u> |

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

**14. Subsidiary Undertakings**

|                                                               | <i>Number of shares</i> | <i>Percentage owned</i> |
|---------------------------------------------------------------|-------------------------|-------------------------|
| The group has major shareholdings in the following companies: |                         |                         |
| Edinburgh Business School (Limited by Guarantee)              | -                       | 100%                    |
| EBS Americas LLC                                              | 450                     | 100%                    |
| Edinburgh Conference Centre Limited                           | 2,100,000               | 100%                    |
| * Heriot-Watt Properties Limited                              | 2                       | 100%                    |
| * Heriot-Watt Services Limited                                | 2                       | 100%                    |
| Heriot-Watt Sports Village Limited                            | 5,000,100               | 100%                    |
| Heriot-Watt Trading Limited                                   | 5,000                   | 100%                    |
| * Interactive University Press Limited                        | 2                       | 100%                    |
| * Scottish College of Textiles Limited                        | 6                       | 100%                    |
| ** SISTech Limited                                            | 250                     | 50%                     |

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Subsidiary Undertakings (continued)**

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

\* These companies are dormant.

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

**15. Endowment Assets**

|                                             | <i>Group</i> |              | <i>University</i> |              |
|---------------------------------------------|--------------|--------------|-------------------|--------------|
|                                             | <i>2007</i>  | <i>2006</i>  | <i>2007</i>       | <i>2006</i>  |
|                                             | <i>£000</i>  | <i>£000</i>  | <i>£000</i>       | <i>£000</i>  |
| Balance at 1 August                         | 6,926        | 6,338        | 5,261             | 4,855        |
| Increase in cash balances held              | 1,534        | 207          | 1,534             | 207          |
| Appreciation of endowment asset investments | 245          | 381          | 114               | 199          |
| Balance at 31 July                          | <u>8,705</u> | <u>6,926</u> | <u>6,909</u>      | <u>5,261</u> |
| Represented by:                             |              |              |                   |              |
| Equities (listed)                           | 6,325        | 6,080        | 4,529             | 4,415        |
| Cash balances                               | 2,380        | 846          | 2,380             | 846          |
|                                             | <u>8,705</u> | <u>6,926</u> | <u>6,909</u>      | <u>5,261</u> |

**16. Debtors**

|                                      | <i>Group</i>  |               | <i>University</i> |               |
|--------------------------------------|---------------|---------------|-------------------|---------------|
|                                      | <i>2007</i>   | <i>2006</i>   | <i>2007</i>       | <i>2006</i>   |
|                                      | <i>£000</i>   | <i>£000</i>   | <i>£000</i>       | <i>£000</i>   |
| Amounts falling due within one year: |               |               |                   |               |
| Trade debtors                        | 4,089         | 4,112         | 2,667             | 2,658         |
| Research debtors                     | 7,622         | 7,259         | 7,622             | 7,259         |
| Loans by parent undertaking          | -             | -             | 3,853             | 3,904         |
| Amounts owed by group undertakings   | -             | -             | 2,261             | 992           |
| Prepayments and accrued income       | 3,148         | 2,439         | 2,752             | 2,131         |
|                                      | <u>14,859</u> | <u>13,810</u> | <u>19,155</u>     | <u>16,944</u> |

Amounts falling due after more than one year:

|                                |               |               |               |               |
|--------------------------------|---------------|---------------|---------------|---------------|
| Prepayments and accrued income | 4,614         | -             | 4,614         | -             |
|                                | <u>19,473</u> | <u>13,810</u> | <u>23,769</u> | <u>16,944</u> |

Included in loans by parent undertaking is £3,853,000 (2006: £3,904,000) due by Edinburgh Conference Centre Ltd to Heriot-Watt University of which £3,801,000 (2006: £3,852,000) is due after more than one year. The loan is repayable in full within 3 months of a written demand from the parent undertaking and bears interest at a rate of 1% over the bank base rate.

Included in prepayments and accrued income is £4,614,000 (2006: £nil) due after more than one year which constitutes deemed consideration received by Heriot-Watt University from Borders College for the sale of its Galashiels site to the College in return for 17.5 years rent-free occupation of part of the site, commencing from the date of practical completion of the redevelopment of the site.

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**17. Creditors: Amounts Falling Due Within One Year**

|                                    | <i>Group</i>  |               | <i>University</i> |               |
|------------------------------------|---------------|---------------|-------------------|---------------|
|                                    | <i>2007</i>   | <i>2006</i>   | <i>2007</i>       | <i>2006</i>   |
|                                    | <i>£000</i>   | <i>£000</i>   | <i>£000</i>       | <i>£000</i>   |
| Bank loans                         | 5,052         | 668           | 5,052             | 668           |
| Loans from subsidiary companies    | -             | -             | 1,000             | 1,000         |
| Obligations under finance leases   | 19            | 19            | -                 | -             |
| Grants in advance for research     | 11,789        | 11,965        | 11,789            | 11,965        |
| Grants in advance from SFC         | 5,724         | 563           | 5,724             | 563           |
| Other creditors                    | 53            | 51            | -                 | -             |
| Trade creditors                    | 2,015         | 2,143         | 1,947             | 2,094         |
| Other taxation and social security | 2,334         | 2,428         | 2,212             | 2,312         |
| Accruals and deferred income       | 10,356        | 8,224         | 9,192             | 7,158         |
|                                    | <u>37,342</u> | <u>26,061</u> | <u>36,916</u>     | <u>25,760</u> |

**18. Creditors: Amounts Falling Due After More Than One Year**

|                                                         | <i>Group</i>  |               | <i>University</i> |               |
|---------------------------------------------------------|---------------|---------------|-------------------|---------------|
|                                                         | <i>2007</i>   | <i>2006</i>   | <i>2007</i>       | <i>2006</i>   |
|                                                         | <i>£000</i>   | <i>£000</i>   | <i>£000</i>       | <i>£000</i>   |
| Bank loans                                              | 18,801        | 27,044        | 18,801            | 27,044        |
| Loans from subsidiary companies                         | -             | -             | 2,000             | 2,000         |
| Obligations under finance leases (between 2 to 5 years) | 2             | 21            | -                 | -             |
| Deferred income                                         | 6,456         | 1,930         | 4,614             | -             |
| Other creditors                                         | 186           | 243           | -                 | -             |
|                                                         | <u>25,445</u> | <u>29,238</u> | <u>25,415</u>     | <u>29,044</u> |

The above loans are repayable as follows:

|                               |               |               |               |               |
|-------------------------------|---------------|---------------|---------------|---------------|
| In one year or less (note 17) | <u>5,052</u>  | <u>668</u>    | <u>6,052</u>  | <u>1,668</u>  |
| Between one and two years     | 1,742         | 668           | 52            | 668           |
| Between two and five years    | 6,930         | 5,954         | 8,358         | 7,954         |
| In five years or more         | 10,129        | 20,422        | 12,391        | 20,422        |
|                               | <u>18,801</u> | <u>27,044</u> | <u>20,801</u> | <u>29,044</u> |
|                               | <u>23,853</u> | <u>27,712</u> | <u>26,853</u> | <u>30,712</u> |

Bank loans comprise £5 million, repayable on the 28<sup>th</sup> September 2007 at rates of between 6.15 and 6.19% and £18.8 million repayable between 2008 and 2016, at rates of between 5.05% and 5.62%.

Loans from subsidiary companies comprises £3,000,000 (2006: £3,000,000) with £2,000,000 (2006: £2,000,000) due after more than one year, repayable in full by 31 July 2009, at a rate of 1.5% over the bank base rate.

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**19. Provisions For Liabilities And Charges**

|                                 | <i>Group and University<br/>Pensions<br/>£000</i> | <i>Total<br/>£000</i> |
|---------------------------------|---------------------------------------------------|-----------------------|
| At 1 August 2006                | 508                                               | 508                   |
| Utilised during the year        | (102)                                             | (102)                 |
| At 31 July 2007                 | <u>406</u>                                        | <u>406</u>            |
| To be spent before 31 July 2008 | <u>34</u>                                         | <u>34</u>             |

**20. Deferred Capital Grants**

|                                    | <i>Funding<br/>Council<br/>£000</i> | <i>Other Grants<br/>and<br/>Benefactions<br/>£000</i> | <i>Total<br/>£000</i> |
|------------------------------------|-------------------------------------|-------------------------------------------------------|-----------------------|
| <b>Group</b>                       |                                     |                                                       |                       |
| At 1 August 2006                   |                                     |                                                       |                       |
| Buildings                          | 29,117                              | 9,768                                                 | 38,885                |
| Equipment                          | 4,463                               | 427                                                   | 4,890                 |
| Total                              | <u>33,580</u>                       | <u>10,195</u>                                         | <u>43,775</u>         |
| Cash Received                      |                                     |                                                       |                       |
| Buildings                          | 846                                 | -                                                     | 846                   |
| Equipment                          | 3,727                               | 881                                                   | 4,608                 |
| Total                              | <u>4,573</u>                        | <u>881</u>                                            | <u>5,454</u>          |
| Transfers                          |                                     |                                                       |                       |
| Buildings                          | (2,401)                             | -                                                     | (2,401)               |
| Equipment                          | (2,939)                             | (369)                                                 | (3,308)               |
| Total                              | <u>(5,340)</u>                      | <u>(369)</u>                                          | <u>(5,709)</u>        |
| Released to Income and Expenditure |                                     |                                                       |                       |
| Buildings                          | (1,025)                             | (267)                                                 | (1,292)               |
| Equipment                          | (710)                               | (452)                                                 | (1,162)               |
| Total                              | <u>(1,735)</u>                      | <u>(719)</u>                                          | <u>(2,454)</u>        |
| At 31 July 2007                    |                                     |                                                       |                       |
| Buildings                          | 26,537                              | 9,501                                                 | 36,038                |
| Equipment                          | 4,541                               | 487                                                   | 5,028                 |
| Total                              | <u>31,078</u>                       | <u>9,988</u>                                          | <u>41,066</u>         |

Cash received of £5,709,000 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.

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**Deferred Capital Grants (continued)**

**University**

At 1 August 2006

|           |               |              |               |
|-----------|---------------|--------------|---------------|
| Buildings | 29,054        | 8,009        | 37,063        |
| Equipment | 4,463         | 425          | 4,888         |
| Total     | <u>33,517</u> | <u>8,434</u> | <u>41,951</u> |

Cash Received

|           |              |            |              |
|-----------|--------------|------------|--------------|
| Buildings | 846          | -          | 846          |
| Equipment | 3,727        | 881        | 4,608        |
| Total     | <u>4,573</u> | <u>881</u> | <u>5,454</u> |

Transfers

|           |                |              |                |
|-----------|----------------|--------------|----------------|
| Buildings | (2,401)        | -            | (2,401)        |
| Equipment | (2,939)        | (369)        | (3,308)        |
| Total     | <u>(5,340)</u> | <u>(369)</u> | <u>(5,709)</u> |

Released to Income and Expenditure

|           |                |              |                |
|-----------|----------------|--------------|----------------|
| Buildings | (1,023)        | (226)        | (1,249)        |
| Equipment | (710)          | (452)        | (1,162)        |
| Total     | <u>(1,733)</u> | <u>(678)</u> | <u>(2,411)</u> |

At 31 July 2007

|           |               |              |               |
|-----------|---------------|--------------|---------------|
| Buildings | 26,476        | 7,783        | 34,259        |
| Equipment | 4,541         | 485          | 5,026         |
| Total     | <u>31,017</u> | <u>8,268</u> | <u>39,285</u> |

**21. Endowments**

|                                             | <i>Group</i>    |                 | <i>University</i> |                 |
|---------------------------------------------|-----------------|-----------------|-------------------|-----------------|
|                                             | <i>Specific</i> | <i>Specific</i> | <i>Specific</i>   | <i>Specific</i> |
|                                             | <i>2007</i>     | <i>2006</i>     | <i>2007</i>       | <i>2006</i>     |
|                                             | <i>£000</i>     | <i>£000</i>     | <i>£000</i>       | <i>£000</i>     |
| At 1 August                                 | 6,926           | 6,338           | 5,261             | 4,855           |
| Additions                                   | 1,273           | 72              | 1,273             | 72              |
| Appreciation of endowment asset investments | 245             | 381             | 114               | 199             |
| Income for year                             | 460             | 334             | 386               | 334             |
| Expenditure for the year                    | <u>(199)</u>    | <u>(199)</u>    | <u>(125)</u>      | <u>(199)</u>    |
| At 31 July                                  | <u>8,705</u>    | <u>6,926</u>    | <u>6,909</u>      | <u>5,261</u>    |
| Representing:                               |                 |                 |                   |                 |
| Fellowship and scholarship funds            | 2,169           | 2,043           | 2,169             | 2,043           |
| Prize funds                                 | 319             | 602             | 319               | 602             |
| Chairs and lectureship funds                | 3,207           | 2,745           | 1,411             | 1,080           |
| Other funds                                 | <u>3,010</u>    | <u>1,536</u>    | <u>3,010</u>      | <u>1,536</u>    |
|                                             | <u>8,705</u>    | <u>6,926</u>    | <u>6,909</u>      | <u>5,261</u>    |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**22. Restricted Funds**

|                         | <i>Group</i> |             | <i>University</i> |             |
|-------------------------|--------------|-------------|-------------------|-------------|
|                         | <i>2007</i>  | <i>2006</i> | <i>2007</i>       | <i>2006</i> |
|                         | <i>£000</i>  | <i>£000</i> | <i>£000</i>       | <i>£000</i> |
| Balance at 1 August     | 171          | 168         | -                 | -           |
| Income in the year      | 21           | 3           | -                 | -           |
| Expenditure in the year | (15)         | -           | -                 | -           |
| Balance at 31 July      | <u>177</u>   | <u>171</u>  | <u>-</u>          | <u>-</u>    |

**23. Investment Reserve**

|                          | <i>Group</i> |             | <i>University</i> |             |
|--------------------------|--------------|-------------|-------------------|-------------|
|                          | <i>2007</i>  | <i>2006</i> | <i>2007</i>       | <i>2006</i> |
|                          | <i>£000</i>  | <i>£000</i> | <i>£000</i>       | <i>£000</i> |
| Balance at 1 August      | (5)          | 52          | -                 | -           |
| Revaluation for the year | 263          | (57)        | -                 | -           |
| Balance at 31 July       | <u>258</u>   | <u>(5)</u>  | <u>-</u>          | <u>-</u>    |

**24. Other Reserve**

|                          | <i>Group</i> |             | <i>University</i> |             |
|--------------------------|--------------|-------------|-------------------|-------------|
|                          | <i>2007</i>  | <i>2006</i> | <i>2007</i>       | <i>2006</i> |
|                          | <i>£000</i>  | <i>£000</i> | <i>£000</i>       | <i>£000</i> |
| Balance at 1 August      | -            | -           | -                 | -           |
| Revaluation for the year | (3)          | -           | -                 | -           |
| Balance at 31 July       | <u>(3)</u>   | <u>-</u>    | <u>-</u>          | <u>-</u>    |

**25. General Reserve**

|                                   | <i>Group</i>  |               | <i>University</i> |              |
|-----------------------------------|---------------|---------------|-------------------|--------------|
|                                   | <i>2007</i>   | <i>2006</i>   | <i>2007</i>       | <i>2006</i>  |
|                                   | <i>£000</i>   | <i>£000</i>   | <i>£000</i>       | <i>£000</i>  |
| Reported Balance at 1 August      | 14,400        | 11,471        | 9,430             | 4,307        |
| Net surplus retained for the year | 2,173         | 1,111         | 1,944             | 3,321        |
| Transfer from reserves            | 7,549         | 1,818         | 7,435             | 1,802        |
| Balance at 31 July                | <u>24,122</u> | <u>14,400</u> | <u>18,809</u>     | <u>9,430</u> |

|                                                                           | <i>Group</i> |                |
|---------------------------------------------------------------------------|--------------|----------------|
|                                                                           | <i>2007</i>  | <i>2006</i>    |
|                                                                           | <i>£000</i>  | <i>£000</i>    |
| The net (deficit) / surplus retained for the year is analysed as follows: |              |                |
| University surplus                                                        | 192          | 709            |
| Gift Aid from subsidiaries                                                | 1,800        | 2,619          |
| Surplus / (deficit) retained by subsidiaries                              | <u>181</u>   | <u>(2,217)</u> |
|                                                                           | <u>2,173</u> | <u>1,111</u>   |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**General Reserve (continued)**

Reconciliation:

|                                | <i>Group</i>  |               | <i>University</i> |              |
|--------------------------------|---------------|---------------|-------------------|--------------|
|                                | <i>2007</i>   | <i>2006</i>   | <i>2007</i>       | <i>2006</i>  |
|                                | <i>£000</i>   | <i>£000</i>   | <i>£000</i>       | <i>£000</i>  |
| Income and expenditure reserve | 27,602        | 26,143        | 22,289            | 21,037       |
| Pension reserve                | (3,480)       | (11,743)      | (3,480)           | (11,607)     |
| Balance at 31 July             | <u>24,122</u> | <u>14,400</u> | <u>18,809</u>     | <u>9,430</u> |

Represented by:

|                                       | <i>Group</i>  | <i>University</i> |
|---------------------------------------|---------------|-------------------|
|                                       | <i>2007</i>   | <i>2007</i>       |
|                                       | <i>£000</i>   | <i>£000</i>       |
| <b>Income and expenditure account</b> |               |                   |
| At 1 August                           | 26,143        | 21,037            |
| Surplus for the year                  | 2,173         | 1,944             |
| Transfer to pension reserve           | (714)         | (692)             |
| At 31 July                            | <u>27,602</u> | <u>22,289</u>     |

|                                               | <i>Group</i>   | <i>University</i> |
|-----------------------------------------------|----------------|-------------------|
|                                               | <i>2007</i>    | <i>2007</i>       |
|                                               | <i>£000</i>    | <i>£000</i>       |
| <b>Pension Reserve</b>                        |                |                   |
| Deficit at 1 August                           | (11,743)       | (11,607)          |
| Current service cost                          | (2,211)        | (2,154)           |
| Employer contributions                        | 1,935          | 1,881             |
| Contributions in respect of unfunded benefits | 14             | 14                |
| Other pension costs                           | (73)           | (73)              |
| Past service gains                            | 678            | 663               |
| Net return on assets                          | 371            | 361               |
| Actuarial gains                               | 7,549          | 7,435             |
| Deficit at 31 July                            | <u>(3,480)</u> | <u>(3,480)</u>    |



NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**26. Reconciliation Of Operating Result To Net Cash Inflow From Operating Activities**

|                                                                                         | <i>Group</i> |              |
|-----------------------------------------------------------------------------------------|--------------|--------------|
|                                                                                         | <i>2007</i>  | <i>2006</i>  |
|                                                                                         | <i>£000</i>  | <i>£000</i>  |
| <u>Income &amp; expenditure</u>                                                         |              |              |
| Surplus on continuing operations after depreciation and disposal of assets and taxation | 2,440        | 1,249        |
| Interest receivable                                                                     | (788)        | (559)        |
| Interest payable                                                                        | 1,552        | 1,596        |
| <u>Fixed assets &amp; deferred capital grants</u>                                       |              |              |
| Depreciation of tangible fixed assets                                                   | 4,969        | 4,269        |
| Amortisation of intangible fixed assets                                                 | 76           | 308          |
| Loss / (Profit) on disposal of tangible fixed assets                                    | 3            | (5)          |
| Deferred capital grants released to income                                              | (2,454)      | (2,365)      |
| Transfer from deferred capital grants to creditors                                      | (5,709)      | -            |
| <u>Endowments &amp; pensions</u>                                                        |              |              |
| Transfer from accumulated income to specific endowments                                 | (261)        | (135)        |
| Transfer from accumulated income to restricted funds                                    | (6)          | (3)          |
| Pension (income) / charges                                                              | (714)        | 96           |
| Net return on pension assets                                                            | (371)        | (82)         |
| <u>Working capital</u>                                                                  |              |              |
| (Increase) in fixed asset investments                                                   | (291)        | (1,921)      |
| Decrease in stocks                                                                      | 16           | 17           |
| (Increase) / decrease in debtors                                                        | (5,663)      | 322          |
| Increase in creditors                                                                   | 11,366       | 2,107        |
| (Decrease) in provisions                                                                | (102)        | (96)         |
| <u>Reserves</u>                                                                         |              |              |
| Increase in restricted funds                                                            | 6            | 3            |
| Increase / (decrease) in investment reserve                                             | 263          | (57)         |
| (Decrease) in revaluation reserve                                                       | (3)          | -            |
| Net Cash Inflow from Operating Activities                                               | <u>4,329</u> | <u>4,744</u> |

**27. Returns On Investment And Servicing Of Finance**

|                                                                      | <i>Group</i> |              |
|----------------------------------------------------------------------|--------------|--------------|
|                                                                      | <i>2007</i>  | <i>2006</i>  |
|                                                                      | <i>£000</i>  | <i>£000</i>  |
| Income received on specific endowments                               | 460          | 334          |
| Expenditure paid on specific endowments                              | (199)        | (199)        |
| Interest received                                                    | 776          | 540          |
| Income received on restricted funds                                  | 21           | 3            |
| Expenditure paid on restricted funds                                 | (15)         | -            |
| Other investment income received                                     | 6            | 16           |
| Interest paid                                                        | (1,552)      | (1,596)      |
| Net return on pension assets                                         | 371          | 82           |
| Net Cash Outflow from Returns on Investment and Servicing of Finance | <u>(132)</u> | <u>(820)</u> |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**28. Capital Expenditure And Financial Investment**

|                                                                    | <i>Group</i>   |                |
|--------------------------------------------------------------------|----------------|----------------|
|                                                                    | <i>2007</i>    | <i>2006</i>    |
|                                                                    | <i>£000</i>    | <i>£000</i>    |
| Purchase of tangible fixed assets                                  | (7,879)        | (5,395)        |
| Proceeds on disposal of tangible fixed assets                      | -              | 37             |
| Purchase of intangible fixed assets                                | (172)          | (524)          |
| Payments to acquire endowment assets                               | (1,534)        | (207)          |
| Deferred capital grants received                                   | 5,454          | 3,677          |
| Endowments received                                                | 1,273          | 72             |
| Net Cash Outflow from Capital Expenditure and Financial Investment | <u>(2,858)</u> | <u>(2,340)</u> |

**29. Financing**

|                                               | <i>Group</i>   |              |
|-----------------------------------------------|----------------|--------------|
|                                               | <i>2007</i>    | <i>2006</i>  |
|                                               | <i>£000</i>    | <i>£000</i>  |
| New amounts drawn down                        | 5,000          | -            |
| Repayment of amounts borrowed                 | (8,859)        | (664)        |
| Capital element of finance lease rentals paid | (19)           | (20)         |
| Net Cash Outflow from Financing               | <u>(3,878)</u> | <u>(684)</u> |

**30. Analysis Of Changes In Net Debt**

|                          | <i>At</i>       | <i>Cash</i>    | <i>Other</i>   | <i>At</i>       |
|--------------------------|-----------------|----------------|----------------|-----------------|
|                          | <i>1 August</i> | <i>Flows</i>   | <i>Changes</i> | <i>31 July</i>  |
|                          | <i>2006</i>     |                |                | <i>2007</i>     |
|                          | <i>£000</i>     |                |                |                 |
| Cash at bank and in hand | 11,555          | (2,539)        | -              | 9,016           |
|                          | <u>11,555</u>   | <u>(2,539)</u> | <u>-</u>       | <u>9,016</u>    |
| Debt due within one year | (668)           | (4,388)        | 4              | (5,052)         |
| Debt due after one year  | (27,044)        | 8,247          | (4)            | (18,801)        |
| Finance leases           | (40)            | 19             | -              | (21)            |
|                          | <u>(16,197)</u> | <u>1,339</u>   | <u>-</u>       | <u>(14,858)</u> |

Had the cash held under endowment asset investments been included above, the net cash inflow would have been £2,873,000 with net debt at 31 July 2007 of £12,478,000 as compared with £15,351,000 as at 31 July 2006. 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.

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**31. Pension Schemes**

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £6,136,000 (2006 - £6,200,000).

|                                                  | <i>Group</i> |              |
|--------------------------------------------------|--------------|--------------|
|                                                  | <i>2007</i>  | <i>2006</i>  |
|                                                  | <i>£000</i>  | <i>£000</i>  |
| The total pension charge is analysed as follows: |              |              |
| Universities Superannuation Scheme               | 4,542        | 4,204        |
| Lothian Pension Fund                             | 1,508        | 1,900        |
| Scottish Teachers Superannuation Scheme          | 102          | 96           |
| Supplementary Pension Scheme                     | (16)         | -            |
|                                                  | <u>6,136</u> | <u>6,200</u> |

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 31<sup>st</sup> March 2005 and of the Supplementary Pension Scheme (SPS) on 31<sup>st</sup> 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.

***Universities Superannuation Scheme***

Heriot-Watt participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and 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 management committee. Under the scheme trustee deeds and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

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

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

## NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

### Pension Schemes (continued)

Standard mortality tables were used as follows:

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

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

- Males 19.8 years
- Females 22.8 years

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

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

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS 17 basis, the actuary estimates that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

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

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

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

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in ISS, 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.

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**Pension Schemes (continued)**

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

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

The total contribution made for the year ended 31 July 2007 was £6,602,000, of which employer's contributions totalled £4,542,000 (2006: £4,204,000) and employee's contributions totalled £2,060,000 (2006: £1,907,000). The agreed contribution rates set are 14% (2006: 14%) for the employer and 6.35% (2006: 6.35%) for employees. The employer's contributions include £574,000 (2006: £532,000) of outstanding contributions at the balance sheet date.

**Lothian Pension Fund**

A full actuarial valuation was carried out at 31 March 2005 by a qualified independent actuary.

The major assumptions used by the actuary were:

|                   | 2007 | 2006 |
|-------------------|------|------|
| Price increases   | 3.3% | 3.1% |
| Salary increases  | 4.8% | 4.6% |
| Pension increases | 3.3% | 3.1% |
| Discount rate     | 5.8% | 5.1% |

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

|          | Long term<br>rate of<br>return<br>% p.a. | Assets at<br>31 July<br>2007<br>£000 | Long term<br>rate of<br>return<br>% p.a. | Assets at<br>31 July<br>2006<br>£000 |
|----------|------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------|
| Equities | 8.0%                                     | 38,814                               | 7.7%                                     | 36,053                               |
| Bonds    | 5.2%                                     | 3,798                                | 4.7%                                     | 2,712                                |
| Property | 6.0%                                     | 6,689                                | 5.7%                                     | 5,035                                |
| Cash     | 5.1%                                     | 3,188                                | 4.8%                                     | 1,464                                |
| Total    | 7.4%                                     | <u>52,489</u>                        | 7.2%                                     | <u>45,264</u>                        |

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Pension Schemes (continued)**

The following amounts represent Heriot-Watt University's share of the scheme at 31 July 2007 and were measured in accordance with the requirements of FRS 17:

|                                       | 2007<br>£000 | 2006<br>£000 |
|---------------------------------------|--------------|--------------|
| Estimated employer assets (A)         | 52,489       | 45,264       |
| Present value of liabilities          | 55,509       | 56,744       |
| Present value of unfunded liabilities | 246          | 263          |
| Total value of liabilities (B)        | 55,755       | 57,007       |
| Net pension liability (A-B)           | (3,266)      | (11,743)     |

*Analysis Of Amount Charged To Operating Profit*

|                                        | 2007<br>£000 | 2007<br>% of<br>payroll | 2006<br>£000 | 2006<br>% of<br>payroll |
|----------------------------------------|--------------|-------------------------|--------------|-------------------------|
| Amount charged to operating profit (A) |              |                         |              |                         |
| Service cost                           | 2,211        | 22.6%                   | 1,892        | 20.7%                   |
| Past service cost                      | (678)        | (6.9)%                  | -            |                         |
| Total Operating Charge (A)             | 1,533        | 15.7%                   | 1,892        | 20.7%                   |

*Analysis Of Amount Credited To Other Finance Income*

|                                              | 2007<br>£000 | 2007<br>% of<br>payroll | 2006<br>£000 | 2006<br>% of<br>payroll |
|----------------------------------------------|--------------|-------------------------|--------------|-------------------------|
| Expected return on employer assets           | 3,310        | 33.9%                   | 2,667        | 29.2%                   |
| Interest on pension scheme liabilities       | (2,932)      | (30.0)%                 | (2,585)      | (28.3)%                 |
| Net Return (B)                               | 378          | 3.9%                    | 82           | 0.9%                    |
| Estimated net revenue account cost (A) – (B) | 1,155        | 11.8%                   | 1,810        | 19.8%                   |

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

|                                                                               | 2007<br>£000 | 2006<br>£000 |
|-------------------------------------------------------------------------------|--------------|--------------|
| Actual return less expected return on pension scheme assets                   | 2,526        | 3,140        |
| Experience gains / (losses) arising on the scheme liabilities                 | 11           | 689          |
| Changes in assumptions underlying the present value of the scheme liabilities | 5,162        | (2,011)      |
| Actuarial gain in pension plan                                                | 7,699        | 1,818        |
| Actuarial gain recognised in STRGL                                            | 7,650        | 1,818        |

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**Pension Schemes (continued)**

*Movement In Deficit During The Year*

|                                               | 2007<br>£000   | 2006<br>£000    |
|-----------------------------------------------|----------------|-----------------|
| (Deficit) at start of the year                | (11,743)       | (13,465)        |
| Current service cost                          | (2,211)        | (1,892)         |
| Employer contributions                        | 1,919          | 1,699           |
| Contributions in respect of unfunded benefits | 14             | 15              |
| Past service gains                            | 678            | -               |
| Net return on pension assets                  | 378            | 82              |
| Actuarial gains                               | 7,699          | 1,818           |
| (Deficit) at end of the year                  | <u>(3,266)</u> | <u>(11,743)</u> |

*History Of Experience Gains And Losses*

|                                                         | 2007<br>£000 | 2006<br>£000 |
|---------------------------------------------------------|--------------|--------------|
| Difference between expected and actual return on assets | 2,526        | 3,140        |
| Value of assets                                         | 52,489       | 45,264       |
| Percentage of assets                                    | 4.8%         | 6.9%         |
| Experience gains on liabilities                         | 11           | 689          |
| Total present value of liabilities                      | 55,755       | 57,007       |
| Percentage of the total present value of liabilities    | -            | 1.2%         |
| Actuarial gains recognised in STRGL                     | 7,650        | 1,818        |
| Total present value of liabilities                      | 55,755       | 57,007       |
| Percentage of the total present value of liabilities    | 13.7%        | 3.2%         |

**Scottish Teachers Superannuation Scheme**

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

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

The total contribution made for the year ended 31 July 2007 was £151,000 (2006: £142,000), of which employer's contributions totalled £102,000 (2006: £96,000) and employee's contributions totalled £49,000 (2006: £46,000). The agreed contribution rates for future years are 13.5% (2006: 13.5%) for employers and 6% (2006: 6%) for employees.

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Pension Schemes (continued)**

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

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

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

The 2001 actuarial valuation date was carried out using an approach known as 'superannuation contributions adjusted for past experience' (SCAPE). Using SCAPE, with effect from 1<sup>st</sup> 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 31<sup>st</sup> March 2001, the balance in the account at that date shall be such that the value of the scheme's assets equals the value of the scheme's liabilities.

**Supplementary Pension Scheme**

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

The major assumptions used by the actuary were:

|                   | 2007 | 2006 |
|-------------------|------|------|
| Price increases   | 3.3% | 3.1% |
| Pension increases | 3.3% | 3.1% |
| Discount rate     | 5.8% | 5.1% |

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

|                                          | Long term<br>rate of<br>return<br>% p.a. | Assets at<br>31 July<br>2007<br>£000 | Long term<br>rate of<br>return<br>% p.a. | Assets at<br>31 July<br>2006<br>£000 |
|------------------------------------------|------------------------------------------|--------------------------------------|------------------------------------------|--------------------------------------|
| Fixed interest & index linked securities | 4.7%                                     | 941                                  | 4.7%                                     | 953                                  |
| Total                                    |                                          | <u>941</u>                           |                                          | <u>953</u>                           |

The following amounts represent Heriot-Watt University's share of the scheme at 31 July 2007 and were measured in accordance with the requirements of FRS 17:

|                                | 2007<br>£000 | 2006<br>£000 |
|--------------------------------|--------------|--------------|
| Estimated employer assets (A)  | <u>941</u>   | <u>953</u>   |
| Present value of liabilities   | <u>1,106</u> | <u>1,026</u> |
| Total value of liabilities (B) | <u>1,106</u> | <u>1,026</u> |
| Net pension liability (A-B)    | <u>(165)</u> | <u>(73)</u>  |



NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**Pension Schemes (continued)**

*Analysis Of Amount Credited To Other Finance Income*

|                                        | 2007       | 2006       |
|----------------------------------------|------------|------------|
|                                        | £000       | £000       |
| Expected return on employer assets     | 44         | 45         |
| Interest on pension scheme liabilities | (51)       | (49)       |
| Net Return                             | (7)        | (4)        |
| Estimated net revenue account cost     | <u>(7)</u> | <u>(4)</u> |

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

|                                                                               | 2007         | 2006        |
|-------------------------------------------------------------------------------|--------------|-------------|
|                                                                               | £000         | £000        |
| Actual return less expected return on pension scheme assets                   | (18)         | (23)        |
| Experience gains / (losses) arising on the scheme liabilities                 | (7)          | (3)         |
| Changes in assumptions underlying the present value of the scheme liabilities | (76)         | (21)        |
| Actuarial loss in pension plan                                                | <u>(101)</u> | <u>(47)</u> |
| Actuarial loss recognised in STRGL                                            | <u>(101)</u> | <u>-</u>    |

*Movement In Deficit During The Year*

|                                | 2007         | 2006        |
|--------------------------------|--------------|-------------|
|                                | £000         | £000        |
| (Deficit) at start of the year | (73)         | (38)        |
| Employer contributions         | 16           | 16          |
| Net return on pension assets   | (7)          | (4)         |
| Actuarial losses               | (101)        | (47)        |
| (Deficit) at end of the year   | <u>(165)</u> | <u>(73)</u> |

*History Of Experience Gains And Losses*

|                                                         | 2007   | 2006   |
|---------------------------------------------------------|--------|--------|
|                                                         | £000   | £000   |
| Difference between expected and actual return on assets | (18)   | (23)   |
| Value of assets                                         | 941    | 953    |
| Percentage of assets                                    | (1.9)% | (2.4)% |
| Experience gains on liabilities                         | (7)    | (3)    |
| Total present value of liabilities                      | 1,106  | 1,026  |
| Percentage of the total present value of liabilities    | (1.0)% | -      |
| Actuarial gains recognised in STRGL                     | (101)  | -      |
| Total present value of liabilities                      | 1,106  | 1,026  |
| Percentage of the total present value of liabilities    | (9.1)% | -      |

NOTES TO THE ACCOUNTS

For the year ending 31<sup>st</sup> July 2007

**32. Post Balance Sheet Events**

There are no material post Balance Sheet events.

**33. Capital Commitments**

|                               | <i>Group</i>  |               |
|-------------------------------|---------------|---------------|
|                               | <i>2007</i>   | <i>2006</i>   |
|                               | <i>£000</i>   | <i>£000</i>   |
| Commitments contracted        | 9,686         | 1,707         |
| Authorised but not contracted | 1,441         | 8,798         |
|                               | <u>11,127</u> | <u>10,505</u> |

**34. Financial commitments**

At 31 July 2007 there were annual commitments under non-cancellable operating leases as follows:

|                                              | <i>Group</i> |             |
|----------------------------------------------|--------------|-------------|
|                                              | <i>2007</i>  | <i>2006</i> |
|                                              | <i>£000</i>  | <i>£000</i> |
| Other:                                       |              |             |
| Expiring within one year                     | 306          | 296         |
| Expiring between two to five years inclusive | 315          | 126         |
|                                              | <u>621</u>   | <u>422</u>  |

**35. Contingent Liability**

There are no material contingent liabilities.

**36. Related Party Transactions**

The financial statements of the group include transactions with related parties. In accordance with FRS 8, these are reported where members of the Court disclose an interest in a body with which the group undertakes transactions which are deemed to be material.

The Interactive University Limited [The IU] is a global publishing and distribution company for the Scottish post compulsory education sector. It provides learning, technology and business services to enable Scottish educational institutions to deliver high quality educational programmes throughout the world.

Total sales to and purchases from The IU during the year were £607,000 (2006: £937,000) and £65,000 (2006: £204,000) respectively. At 31 July 2007 trade debtors included £nil (2006: £330,000) due by The IU to Heriot-Watt University.

NOTES TO THE ACCOUNTS  
For the year ending 31<sup>st</sup> July 2007

**37. Access Funds**

|                                 | <i>Group</i>     |                 |              |
|---------------------------------|------------------|-----------------|--------------|
|                                 | <i>Childcare</i> | <i>Hardship</i> | <i>Total</i> |
|                                 | <i>£000</i>      | <i>£000</i>     | <i>£000</i>  |
| At 1 August 2006                | 5                | 25              | 30           |
| Funding Council grants          | 37               | 301             | 338          |
| Disbursed to students           | (29)             | (279)           | (308)        |
| Balance unspent at 31 July 2007 | <u>13</u>        | <u>47</u>       | <u>60</u>    |
| Repayable to funding body       | <u>12</u>        | <u>43</u>       | <u>55</u>    |

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.

## MEMBERS OF COURT

At 10<sup>th</sup> December 2007

|                                    |                                                                                                                                                                                          |                                                                                                                  |
|------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------|
| Chancellor                         | Baroness Susan Greenfield <sup>1</sup>                                                                                                                                                   | CBE, MA, DPhil, DSc, FRCP                                                                                        |
| Chairman of Court                  | Gavin J N Gemmell <sup>1</sup>                                                                                                                                                           | CBE, CA                                                                                                          |
| Principal & Vice-Chancellor        | Professor Anton Muscatelli <sup>6</sup>                                                                                                                                                  | FRSE AcSS                                                                                                        |
| Acting Principal & Vice-Chancellor | <i>Professor John E L Simmons</i> <sup>5</sup>                                                                                                                                           | BSc, PhD, CEng, FRSE, FIMechE, FIEE, FRSA                                                                        |
| Vice-Principal                     | Professor Andrew C Walker                                                                                                                                                                | BA, MSc, PhD, FInstP, CPhys, FRSE                                                                                |
| City of Edinburgh                  | <i>Councillor Andrew Scobbie</i> <sup>1,2</sup><br>Councillor Tim McKay <sup>1,3</sup>                                                                                                   | BA, ALA                                                                                                          |
| Convocation                        | Graeme Bissett <sup>1</sup><br>Judith McClure <sup>1</sup><br>Malcolm Durie <sup>1</sup>                                                                                                 | BA, CA<br>CBE, MA, DPhil, FRSA, FSA<br>BSc                                                                       |
| Senate                             | <i>Michael Breaks</i> <sup>2</sup><br>Dr J W Sawkins <sup>3</sup><br>Dr G B Thomson <sup>3</sup><br>Dr Robert I Mochrie <sup>3</sup><br>Professor Adrian C Todd                          | MA DipLib<br>MA, MSc, PhD<br>BSc, PhD, CSci, CChem, MRSC<br>BSc, MSc, PhD<br>BSc, PhD, CEng, CSci, FICChemE, FEI |
| Staff                              | James Maguire<br><i>June Maxwell</i> <sup>2</sup><br>Jim Polson<br><i>Dr John A Steel</i> <sup>2</sup><br>C Jane Queenan <sup>1</sup>                                                    | Chartered MCIPD<br><i>BSc, MSc, PhD, CEng, MIOA</i><br>LIB, MBA                                                  |
| Graduates                          | Moyra Kedslie <sup>4</sup><br>Yvonne Savage <sup>1</sup>                                                                                                                                 | BA, PhD, FCCA, FRSA<br>BA                                                                                        |
| Students Association               | Liam Burns <sup>1</sup><br>Talat Yaqoob <sup>1</sup>                                                                                                                                     | BSc<br>BSc                                                                                                       |
| Co-opted                           | Neil Fraser <sup>1</sup><br>Andrew Muirhead <sup>1,3</sup><br>Dr Alan Parsley <sup>1</sup><br>Ray Perman <sup>1</sup><br>Ed Weeple <sup>1</sup><br>David E Woods <sup>1</sup><br>Vacancy | BA<br>FCIBS, MBA<br>BSc, PhD<br>BA, MBA<br>CB, MA<br>MA MSc FIA                                                  |

<sup>1</sup> Lay Member of Court

<sup>2</sup> Member until 31<sup>st</sup> July 2007

<sup>3</sup> Member from 1<sup>st</sup> August 2007

<sup>4</sup> Member from 1<sup>st</sup> October 2007

<sup>5</sup> Member until 31<sup>st</sup> January 2007

<sup>6</sup> Member from 1<sup>st</sup> February 2007

MEMBERSHIP OF COMMITTEES OF COURT

At 10<sup>th</sup> December 2007

**AUDIT COMMITTEE**

Mr D E Woods (Convenor)  
Mr D A Brew  
Mr J E Chambers  
Mr Andrew Muirhead (from 1 August 2007)  
Dr A Parsley  
Ms Y Savage

**EMERGENCY COMMITTEE**

Mr G J N Gemmell (Convenor)  
Professor J E L Simmons  
Mr G Bissett  
Professor V A Muscatelli (from 1 February 2007)  
Dr A Parsley  
Professor A C Todd  
Professor AC Walker

**ESTATE STRATEGY COMMITTEE**

Mr N Fraser (Convenor)  
Mr L Burns  
Mr J Draper  
Mr R Durie  
Dr E Finch  
Mr G J N Gemmell  
Mr Robert Kent (from 1 October 2007)  
Mr J Maguire  
Professor V A Muscatelli (from 1 February 2007)  
Mr J Polson  
Professor J E L Simmons  
Professor A C Walker  
Professor J I B Wilson

**FINANCE COMMITTEE**

Mr G Bissett (Convenor)  
Mr M Durie (from 1 August 2007)  
Mr G J N Gemmell  
Mr J Laurie  
Professor V A Muscatelli (from 1 February 2007)  
Mr R Perman  
Professor J E L Simmons  
Professor A C Todd  
Professor A C Walker

**NOMINATING AND REVIEW COMMITTEE**

Mr G J N Gemmell (Convenor)  
Mr G Bissett  
Professor V A Muscatelli (from 1 February 2007)  
Mr A Muirhead (from 1 August 2007)  
Mr R Perman  
Professor J E L Simmons (until 31 January 2007)  
Professor A C Walker

MEMBERSHIP OF COMMITTEES OF COURT

At 10<sup>th</sup> December 2007

**REMUNERATION COMMITTEE**

Mr G J N Gemmell (Convenor)  
Mr G Bissett  
The Rt Hon Lord Johnston

**STAFFING STRATEGY COMMITTEE**

The Rt Hon Lord Johnston (Convenor)  
Mr M L Breaks  
Dr J W Dawkins (from 1 April 2007)  
Mr G J N Gemmell  
Dr J McClure (from December 2006)  
Professor V A Muscatelli (from 1 February 2007)  
Professor G H O Palmer  
Professor J E L Simmons  
Mr B Stewart  
Professor AC Walker





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