

Global thinking, worldwide influence

report and financial statements
year ended 31 July 2013



Distinctly Global
www.hw.ac.uk

Values

*All Heriot-Watt endeavours will
embody our shared values of:*

Pursuing Excellence

Shaping the Future

Outward Looking

Pride and Belonging

Valuing and Respecting Everyone

Front cover

James Watt statue housed in the
National Museum of Scotland, Edinburgh

The Vision

Heriot-Watt's vision is to be world leading, within all its specialist areas of science, engineering, technology and business

The Mission

Our mission is to create and exchange knowledge for the benefit of society

We Shall

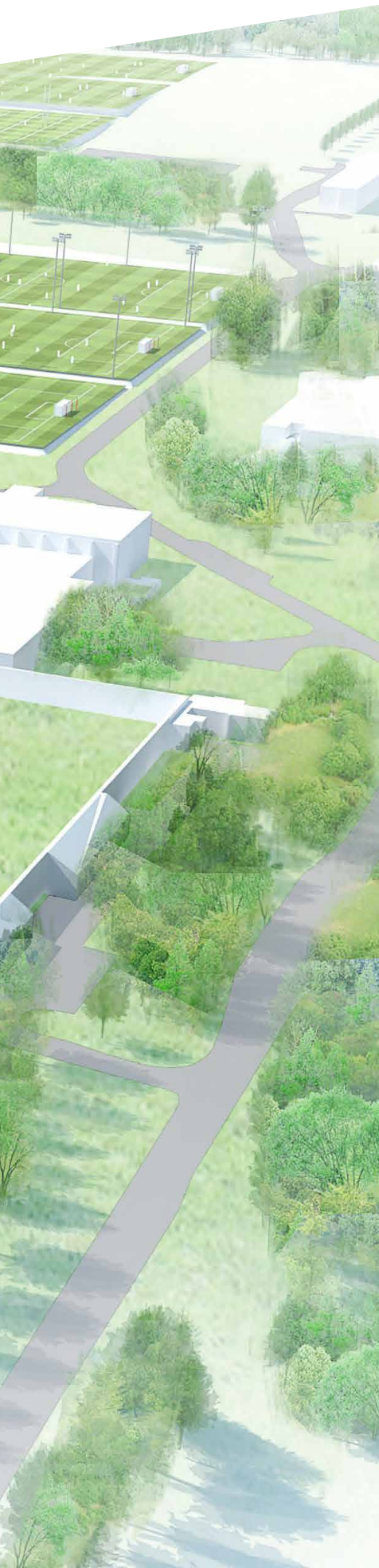
Strengthen research intensity in fields of economic and societal benefit; Provide truly global education while maintaining our Scottish roots; and Deliver excellent student experience and highly employable graduates.

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Introduction

Heriot-Watt University won the bid to host the Scottish National Performance Centre for Sport in October 2013. A £30 million investment and a sporting facility that will be unparalleled in Scotland when it opens in 2016.



This has been a very successful year for the University, despite a challenging environment across the whole sector. I am proud of what we have achieved and am delighted to share our progress with you.

2013 was the year in which we launched our latest University Strategic Plan and outlined our ambition on the four fronts of Research Intensification, Learning and Teaching, Internationalisation and Enabling Strategies. I am pleased to say we have made good progress against key performance indicators in each of these areas.

Our stated intention to improve and grow the quality of our research outputs has shown real advances in the last year, with an increase in research grant income to £26.9 million, some £1.1 million higher than target. We have diversified and broadened our research income sources to include a wider range of Research Councils, augmented the average size of our awards and we have made strong headway with our recruitment of top quality research academics.

We were very pleased to report 2012 National Student Survey results in the top decile, demonstrating our continued commitment to a quality student experience. In order to meet the demands of significant growth in student numbers, we have provided more teaching space and student accommodation at both our Edinburgh and Scottish Borders Campuses.

On the internationalisation agenda, steady progress has been made on the Heriot-Watt University Malaysia Campus, in the government capital of Putrajaya. As well as continued success in international recruitment, further international partnerships and collaborations have been established. These include a

partnership by Edinburgh Business School with the National Institute of Financial Management in Delhi, India. Our School of Engineering and Physical Sciences and the Institute of Petroleum Engineering, have set up a partnership for the delivery of undergraduate programmes in Chemical and Petroleum Engineering at the Baku Higher Oil School in Azerbaijan. Activities in China have also continued to grow and develop with the establishment of a 'Representative Office'.

In delivering our strategy in the last year, we have relied on excellent professional management to sustain good financial health and to invest in an expansion of the estate and systems to support our ambition. Overall, the Heriot-Watt Group reported a surplus of £4.2 million for the year, £1.1 million ahead of plan. It increased income by 13%, with total income increasing by £20 million to £176 million.

Student tuition fees grew by £12 million over the year, with almost £3.5 million coming from UK and EU students studying at the Scottish Campuses and over £8 million from fees of international students.

2012/13 has been a momentous and rewarding year. We have celebrated several high profile events and announcements including the installation of our new Chancellor, Dr Robert Buchan. We have welcomed many new colleagues to the University, boosted our capacity across the breadth of our Strategic Plan and witnessed exciting developments internationally on our Dubai Campus and at our new campus in Putrajaya, Malaysia. Staff and students alike have many achievements of which we can be truly proud and I take this opportunity to thank them for their contribution.

Professor Stephen K Chapman
Principal and Vice-Chancellor

Operating and Financial Review

This Operating and Financial Review describes the main trends and factors which acted as a foundation for Heriot-Watt University's performance during the year to 31 July 2013. It has been prepared in line with the guidance provided on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

HISTORY

The University's history began in 1821 when the School of Arts of Edinburgh was established, the world's first Mechanics Institute, which revolutionised access to education in science and technology for ordinary people. Its purpose was to "address societal needs by incorporating fundamental scientific thinking and research into engineering solutions". As the institution developed, changing its name in 1852 to the Watt Institution & School of Arts, and again in 1855 to Heriot-Watt College, its focus on "the practical application of knowledge and learning for the betterment of society" remained a defining characteristic, delivered via an academic curriculum with a strong emphasis on the needs of industry. In 1966 the College became Heriot-Watt University established by Royal Charter, and continued to develop the University's approach, responding to the needs of business and industry.

REPUTATION

Today, the University remains true to its heritage of creating and exchanging knowledge for the benefit of society, delivering teaching that is professionally relevant and careers-focused, and developing world leading, innovative research that provides practical solutions to contemporary issues. It has grown to encompass three campuses in Scotland (Edinburgh, Borders, and Orkney); two overseas (Dubai and Malaysia) and has a truly international outlook, delivering degree programmes across the globe. It provides a distinctive education and a high quality student experience that has led to it achieving a number of accolades, including the Sunday Times Scottish University of the Year award for two years running (2011/12 and 2012/13) and Sunday Times Top University in the UK for Student Experience (2011/12). It is now a leading institution with an established reputation for high quality across both its teaching and research, and continues to grow as a university characterised by a commitment to excellence.

STUDENT NUMBERS AND LOCATIONS

Heriot-Watt has over 12,000 students based on its Scottish and overseas campuses and approaching 15,000 students studying on its international programmes across the world. On its Scottish Campuses 53% of students come from Scotland, 7% from across the UK, 13% from the European Union and 27% from overseas. There are 3,450 students on the Dubai Campus and 16 students at our initial premises in Malaysia. Across all campuses, the student figures break down into 8,500 undergraduates, 2,750 postgraduates and 900 postgraduate researchers.

Heriot-Watt continues to develop as a high performing, rapidly growing, financially stable university, exploiting the synergy between excellent teaching and research in a global and professional context

GLOBAL PRESENCE

In 2005, Heriot-Watt was the first UK university to create an overseas campus in Dubai International Academic City and it is currently developing a state-of-the-art campus in Malaysia which will serve the South East Asia region and beyond. As well as educating students at its two overseas campuses, Heriot-Watt University has an unsurpassed international in-country presence delivering degree programmes via distance learning and through an innovative Approved Learning Partner network which comprises 43 institutions in 35 countries.

INSTITUTIONAL STRUCTURE

The University has structured its teaching and research into six academic schools and two postgraduate institutes:

- School of the Built Environment
- School of Engineering and Physical Sciences
- School of Life Sciences
- School of Management and Languages
- School of Mathematical and Computer Sciences
- School of Textiles and Design
- Institute of Petroleum Engineering
- Edinburgh Business School



Global thinking, worldwide influence



Strategic Plan

VISION AND MISSION

Heriot-Watt's vision is to be: "world-leading within all its specialist areas of science, engineering, technology and business". This vision requires the University to be at the forefront of research and research-intensive education in the UK and internationally, and to deliver world-class innovative research and high quality teaching and learning, relevant to economic growth and development across business and industry.

To achieve this vision, Heriot-Watt's mission focuses on strengthening research intensity in the fields of economic and societal benefit, providing truly global education, delivering an excellent student experience and highly employable graduates. Although its ambitions are far reaching and its approach is globally focused, Heriot-Watt is committed to its Scottish roots and to playing an essential role locally and nationally.

STRATEGIC DIRECTION

The characteristics of global recognition and professional relevance are defining distinctions of the University and are the bedrock of its strategic direction. Maintaining this distinctiveness will require the University and its academic staff to:

- exploit the synergy between excellent teaching and research in a global and professional context, and
- perform at internationally competitive levels of creativity in research, scholarship and teaching as synergistic activities.

Underpinning this strategic direction is the University's operational focus on continuing to be a high performing, rapidly growing and financially sustainable institution.

STRATEGIC PLAN

The Strategic Plan 2013–18 presents the University's direction and priorities for the five year period. The plan defines the University's ambitions, aims and objectives, and the pattern and scale of activities that will underpin its achievement. There are four defined areas of focus in the strategic plan (Research Intensification; Learning, Teaching and Student Experience; Internationalisation; and Enabling Strategies) and each one has clearly articulated aims and a number of key performance indicators.

Heriot-Watt's mission focuses on strengthening research intensity in the fields of economic and societal benefit, providing truly global education, delivering an excellent student experience and highly employable graduates

Research Intensification

CONTEXT

The UK university sector is now characterised by increasing stratification, with the primary characteristics associated with perceived quality being research intensity and scale. Thus fundamental strategic targets are those associated with growth and research income (as a proxy for research intensity).

TARGET

The University's strategic plan sets very ambitious targets for the growth in research income from under £23 million earned in 2011-12, to a target of £40 million per annum by the end of 2018. This target for research grant and contract income was set to be consistent with the performance of our benchmark group, the small and medium-sized research intensive universities that formerly constituted the 1994 Group.

AIMS IN SUPPORT OF TARGET

Research at Heriot-Watt spans the fundamental to the applied, through an interdisciplinary approach to knowledge creation and enterprise. To meet the target set for 2018 the University will:

- Promote new interdisciplinary fields of research, emphasising economic and societal benefit in order to generate high impact outputs and attract significant research funding to increase critical mass
- Develop further strategic collaborations through national and international academic and industrial research alliances
- Take advantage of our international campuses and worldwide learning partnerships to extend research opportunities



- Facilitate research management through research-led institutes and interdisciplinary research centres, providing focus and identity to enhance research opportunities, performance and funding
- Support innovation and entrepreneurship in the creation of new enterprise, and
- Increase the number of research students commensurate with an expanded research landscape.

ACTIVITY

The University has made an impressive start in achieving its long term target, exceeding, by over £1 million, the challenging target set for the year of £25.8 million research income, representing growth of 18% on last year. See table below.

Sustaining this trend will be crucial if the University is to fulfil its strategic ambition, but given that the values of current awards and proposals are also at unprecedented levels, there is good reason to suppose that this can be achieved. This outstanding performance implies that the University's strategic plans, which began to be implemented in 2007–2008, are now beginning to bear fruit.

Academic staff recruitment:

Our academic recruitment strategy has seen 93 new appointments over the last three years, which has contributed not only in a growth of research income, but the beginnings of diversification of our income sources, including broadening our interaction with the range of Research Councils.

Research Activity

	2012-13 £m	2012-13 No.	2011-12 £m	2011-12 No.	2010-11 £m	2010-11 No.
Research income	26.9	-	22.7	-	21.2	-
Research awards	35.3	243	23.8	220	24.2	219
Research proposals	153.7	609	130.3	524	79.2	421

- **Co-ordination of strategic-scale research proposals:**

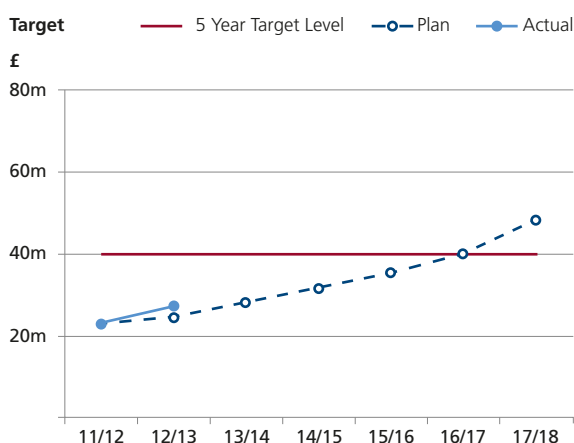
Increasingly, as a matter of strategy, Research Councils are seeking to concentrate their portfolio on a smaller number of larger research projects, often interdisciplinary and collaborative in nature. They seek to do so in order to be able to make real and demonstrable impact on research problems of real significance. They wish to do so not least in order to be able to demonstrate strategic intent in spending round negotiations. Conversely, the strength of Heriot-Watt's research portfolio has traditionally been in large numbers of small grants. Over the last few years, the University's Research and Knowledge Exchange Board has begun to develop a role in co-ordinating larger scale, collaborative bids. The consequence is a steady increase in the average size of our research grants, again often involving our newer recruits.

RISKS

Despite these current considerable successes, and the strength of the current 'order book', there are some risks too. Industry funding is not growing as quickly as public funding of our portfolio, and the total public budget for research is constrained by public spending control. The likely effect of these concerns is that we will need to win a larger slice of a potentially shrinking cake, and to grow our investigator base in order to grow and diversify, both of which are aims associated with our "global platform" initiative, which aims for around 100 high calibre academic appointments over the period 2013-2018.

The University's strategic plan sets very ambitious targets for the growth in research income from under £23 million earned in 2011-12, to a target of £40 million per annum by the end of 2018

KEY PERFORMANCE INDICATORS (KPI)



KPI: Annual Research Grant and Contract Income

A good primary indication of the volume and scale of research projects being undertaken is the value of annual income from Research Grants and Contracts (excluding Funding Council Grants).

Unsurprisingly, the Russell Group of research intensive universities is in the top 15% of institutions with income levels between £80 million and £400 million. Most of the remainder of the pre-1992 institutions sit between this level and the median income of

£7 million. Heriot-Watt's impressive performance in the last two years has seen a trend of income growth and improvement in its relative position. Indicators, such as recent research grant awards and proposals, point to this trend being sustained, and allowing for inflation and competitor growth, the University is on target to reach the upper quartile of institutions, ahead of the end of the strategic plan period.

Learning, Teaching and the Student Experience

CONTEXT

Heriot-Watt University has a long-standing reputation for providing highly employable graduates who have a distinctive professional orientation. It is also establishing an excellent reputation for the quality of student experience that it offers, exemplified by the year's top decile outcome from the 2012 National Student Survey. This achievement has undoubtedly been influential in generating demand from students to study at Heriot-Watt.

TARGET

The University aims to strengthen its graduates' attributes and skills further, through:

- Enhanced approaches to teaching, learning and assessment
- Further development of facilities and support for the student learning and living experience and
- A continually updated, relevant, broad curriculum.

AIMS IN SUPPORT OF TARGET

To meet its strategic target the University will:

- Work in partnership with its students to:
 - Deliver high quality teaching and learning
 - Recognise increasing student diversity and identify solutions to emerging needs, and
 - Work in partnership with professional bodies, business and industry to ensure its graduates can provide what is required for the success of the organisation they are joining, and for their own success in their chosen field
- Ensure that the Heriot-Watt curriculum is fit for purpose:
 - Being informed by relevant research



- Delivering a distinctive set of graduate attributes, and
- Being valued by employers and society

- Continually support staff to introduce enhanced approaches to teaching, learning and assessment, and
- Work with partners to ensure that our programmes are accessible to the brightest and best from all backgrounds.

ACTIVITY

In recent years, the University's student numbers have seen significant growth. With further growth envisaged, it will be essential to continue to develop the estate to provide more high quality capacity. The University's future plans recognise those needs, and specifically with regard to teaching accommodation, a major initiative for the coming session is the re-purposing of the James Watt Centre 1, so that it will be given over to teaching during semesters, and will remain available for conferences only during the vacations.

Thus, an additional large, tiered lecture theatre becomes available immediately, plus a suite of seminar rooms and extensive common learning space.

Beyond direct learning and teaching, provision of facilities for sport and exercise are an important component of the student experience. In October 2013, the University won the bid for the Scottish National Performance Centre for Sport (NPCS). This scheme will attract £25 million of grant funding to establish a £30 million facility, unparalleled amongst Scottish universities.

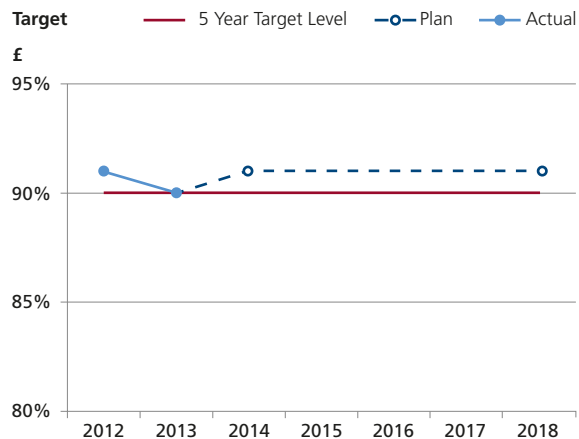
The start of the 2012 academic session saw the opening of the new residential accommodation in Edinburgh and at the Scottish Borders Campus. The University intends to continue its programme of updating on-campus residential accommodation by providing another new residence in Edinburgh.

RISKS

The University perceives the major risk here to be any impact on the student experience that might arise from the failure of its student facilities to keep pace with the growth in student numbers. In the short term, this has been addressed through the re-purposing of conference facilities to supplement teaching facilities. In the longer term, the University is surveying its utilisation of space in order to better inform planning and development of its future space needs. In addition, the University already has well developed plans to expand and improve its residential and sports facilities.

In relation to international students at our UK campuses, the University continues to work hard to maintain compliance with all UKBA regulations and requirements such that the likelihood of substantive exceptions is rare. This minimises the risks around maintenance of the University's "Highly Trusted" sponsor status.

KEY PERFORMANCE INDICATORS (KPI)



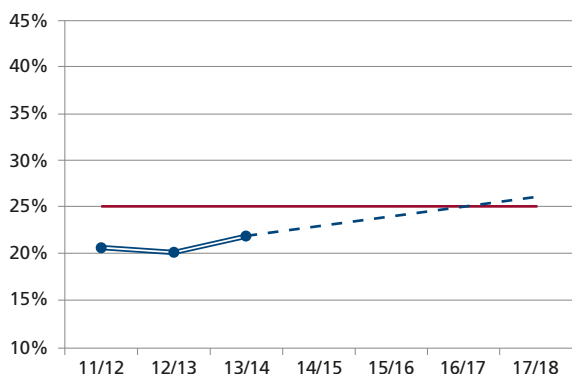
KPI: Student Satisfaction

Heriot-Watt is currently outperforming most of the sector with regard to student satisfaction. From a peak in 2012, where 92% of its students responded positively in the National Student Survey (NSS) in their assessment of overall satisfaction, the University's 2013 results meet their target and place it 11th in the UK and 2nd in Scotland. Nine of Heriot-Watt's subjects are ranked in the top ten, and Chemistry and Chemical Engineering are both ranked first.

Heriot-Watt University has a long-standing reputation for providing highly employable graduates who have a distinctive professional orientation

KEY PERFORMANCE INDICATORS (KPI)

Target — 5 Year Target Level — SIMD Plan — SIMD Actual

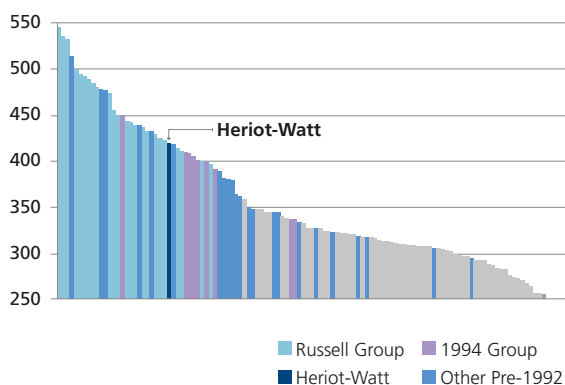
**KPI: Wider Access**

In Scotland, wider access is generally measured as the fraction of entrants from SIMD40* areas which provides an indication of the social diversity of the student population. Heriot-Watt's target is to move to at least 25% of Scottish entrants over the next three to five years, and to achieve at least 25% of this Scottish student population coming from SIMD40 areas. Progress towards this target shows that the University has achieved growth in its intake from SIMD40 in 2013, both in total numbers and as a proportion of the population.

* the 40% most deprived areas as measured by the Scottish Index of Multiple Deprivation (SIMD)

KEY PERFORMANCE INDICATORS (KPI)

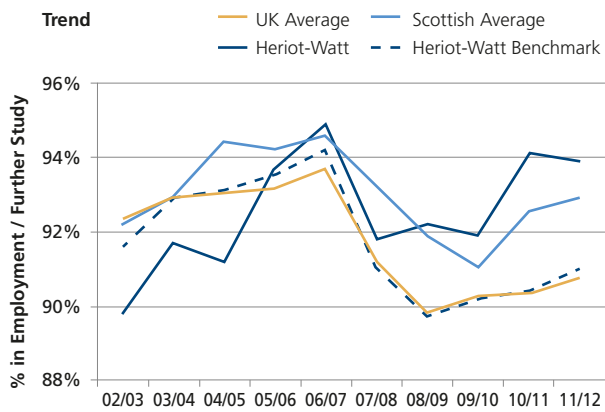
2012/13

**KPI: Entry Standards**

The average UCAS tariff score of university entrants is a recognised method for equating a variety of entry qualifications and grades on a single scale. The result provides an indication of demand from well-qualified candidates and of entrants' levels of prior attainment. Heriot-Watt's position relative to the rest of the university sector shows that demand remains high and places the University in the upper quartile which is consistent with its target. The challenge is to sustain that position.

Demand from well qualified candidates for a place at Heriot-Watt remains high

KEY PERFORMANCE INDICATORS (KPI)

**KPI: Graduate Employment**

Measuring the fraction of UK university first degree graduates in employment or further study/training six months after graduation indicates an institution's effectiveness in preparing graduates for a successful future. Heriot-Watt's results of around 94% places it 19th in the UK, just below the upper decile boundary of 94.4%, the position the University aspires to achieve and sustain.



Internationalisation

CONTEXT

Heriot-Watt is “Scotland’s international university” and is among the UK’s top five universities in terms of its international presence and number of international students.

TARGET

The University has set an ambitious target of doubling the scale of its international activities over the next five years.

AIMS IN SUPPORT OF TARGET

To achieve its target the University aims to:

- Continue to grow rapidly all streams of international activity
- Secure the success of the new Malaysia Campus
- Enhance the internationalisation of research and knowledge exchange activities
- Ensure that Heriot-Watt University qualifications are recognised and respected internationally, providing entry to jobs worldwide
- Facilitate international mobility for Heriot-Watt students and staff
- Provide a state-of-the-art virtual learning environment (VLE), a ‘virtual campus’, supporting the needs of all Heriot-Watt students independent of location or mode of study, and
- Support the development of Heriot-Watt as an international university with Scottish roots.



ACTIVITY

The University recently opened the second phase of its Dubai Campus, featuring on-campus student accommodation as well as a 700 seat auditorium, a range of leisure facilities along with food and retail outlets. Building on the success of Dubai, 2012/13 saw the University focus on the development of the Heriot-Watt University Malaysia Campus. This will provide almost 4,000 Heriot-Watt students with facilities such as student accommodation, an auditorium, food court and recreational facilities. This is a significant opportunity for the University to further extend its international reach and reputation in accordance with its international strategy.

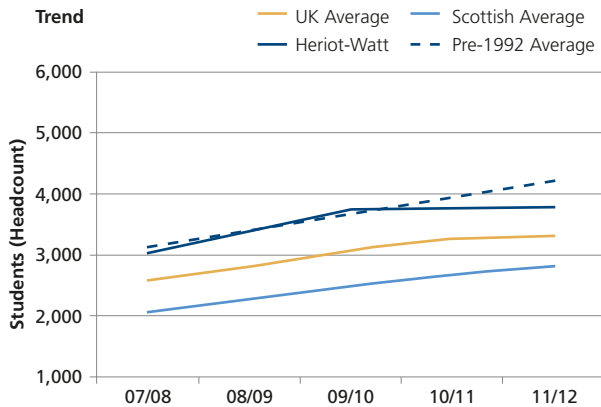
As well as continued success in international recruitment, this year has seen the development of further international partnerships and collaborations. Edinburgh Business School established a prestigious academic collaboration with the National Institute of Financial Management in Delhi, India. In Azerbaijan, the School of Engineering and Physical Sciences,

working closely with the Institute of Petroleum Engineering, has established a partnership for the delivery of undergraduate programmes in Chemical and Petroleum Engineering, helping to create the new generation of engineers required by industry. In China, the University established a ‘Representative Office’, demonstrating the importance of this market for a range of academic collaborations and recruitment.

RISKS

Given the size of the project in Malaysia, we are particularly attuned to the range of risks that the project presents, including those relating to student recruitment, programme accreditation and the provision of facilities to meet student needs. Both the International Strategy Board and the Heriot-Watt University Malaysia Project Board maintain risk registers. These are used to identify, review and manage risks on a regular basis in relation to key projects, as well as taking a view across the whole strategy. This includes ‘horizon scanning’ of the political and economic environments in key markets of interest to Heriot-Watt.

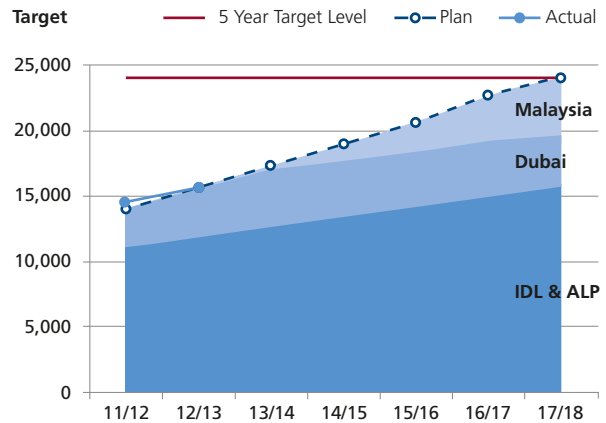
KEY PERFORMANCE INDICATORS (KPI)



KPI: International Students Studying in the UK

The trend at Heriot-Watt in attracting students from abroad has been rising in line with the pre-1992 university average (above the level of the UK and Scottish averages) but latterly has fallen slightly behind this. The University's target is for steady annual growth from 3,700 students in 2011/12 to 4,200 students by 2017/18. At 3,900 in 2012/13 Heriot-Watt's international student numbers are actually a little ahead of this target and are predicted to run closer to target for the remainder of the planning period.

KEY PERFORMANCE INDICATORS (KPI)



KPI: Students Studying outside the UK

Heriot-Watt has a history of supporting students to achieve its degrees outside the UK, mainly through International Distance Learning (IDL) and partnerships with overseas institutions which deliver the University's accredited learning programmes (ALPs). The addition of the Dubai (2005) and Malaysia (2013) Campuses has also strengthened the University's international presence. At the end of 2012, Heriot-Watt was second only to the Open University in terms of the number of students studying outside the UK. The University plans to continue to grow distance learning and partner activity, and to increase the delivery of a range of undergraduate and postgraduate programmes at its Campus in Putrajaya, Malaysia.

The University has set an ambitious target of doubling the scale of its international activities over the next five years

Enabling Strategies

CONTEXT

The University has a sound financial base in terms of annual operating surpluses, diversified and growing income streams, and effective control of costs. Historically it has been relatively conservative in its borrowing, however, its ambitious strategy will require a degree of risk, and further investment will be necessary. The University anticipates that significant investment capacity should become available, subject to the performance of the plan, careful business planning and the well-managed execution of strategic projects.

TARGET

In financial terms the strategic plan targets are to develop income growth by over 50% over the next five years, and to achieve annual operating surpluses of at least 7% of income within five years.

AIMS IN SUPPORT OF TARGET

To achieve the above targets the University aims to:

- Increase its financial resilience and agility in order to redeploy resources to best effect
- Promote an entrepreneurial approach across all operating units
- Invest in the estate, infrastructure and IT
- Pursue other streams of income, including developing a fundraising campaign
- Maximise the commercial value emanating from the University's intellectual property, and
- Research and develop commercial income opportunities from the University estate and other facilities.



ACTIVITY

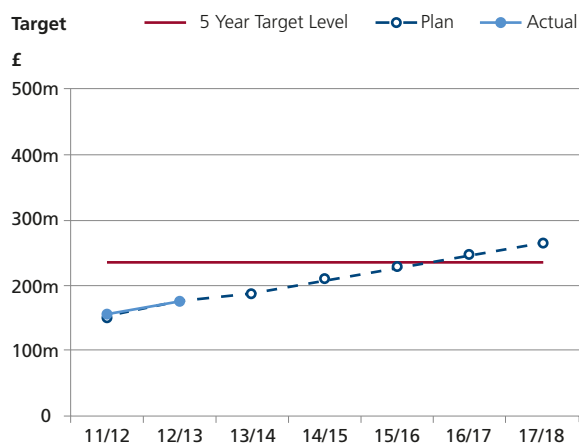
Investment in the University's estate and infrastructure has begun and the first phase of student residences renewal at the Scottish Campuses and the development of a new Malaysia Campus have been initiated.

RISKS

The main risks facing the University are associated with its ambitious capital plans, including that relating to the capacity to concurrently deliver a range of projects and the associated funding. In practice, our projects will be managed within an agreed and structured project management framework. We will ensure that appropriate project management, resource and financial planning will be directed to ensure that projects can be delivered within an overall programme. Our Financial Plan indicates that the funding of our capital plans will utilise existing borrowing facilities, cash generation from a growth in annual operating surplus, supplemented, where necessary, by a modest increase in borrowings.

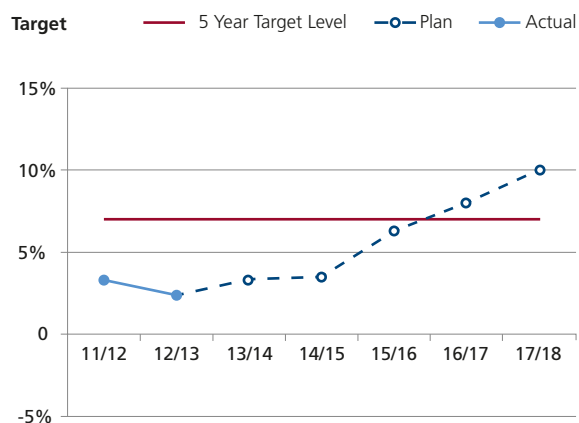
The University has a sound financial base in terms of annual operating surpluses, diversified and growing income streams, and effective control of costs

KEY PERFORMANCE INDICATORS (KPI)

**KPI: Total Income**

The UK university sector has experienced 83% income growth over the last decade. With 78% growth over the same period, Heriot-Watt has lagged behind, but more recently has exceeded the sectoral trend. At £156 million in 2011/12 (the most recently available sectoral figures), Heriot-Watt's income lay slightly below the sectoral median. When normalised to total staff numbers (to give a measure of the efficiency of income generation), the University's £94k per staff FTE sits around the UK top 25. The target is growth to £235 million by 2017/18, which could move the University well into the sector's second quartile, exactly how far depending on competitor growth rates. The 2013 Financial Plan projects meeting that target in 2016/17 and predicts significant above inflation growth (averaging 8.6% per annum). Encouragingly, actual performance in 2012/13 lies slightly ahead of this forecast.

KEY PERFORMANCE INDICATORS (KPI)

**KPI: Operating Surplus**

Historical surplus as a percentage of total income is a significant indication of an institution's ability to generate a surplus proportionate to its size. Heriot-Watt has generally trailed the sector average and has become more convergent with a lower Scottish average in the last few years. The University's target is to achieve and sustain a surplus of at least 7% by 2017/18, which is particularly demanding in relation to its ambitious income growth target. Progress to date shows the surplus evolving in line with the 2013 Financial Plan which projects rising surpluses from 2015/16 and exceeding the target level from 2016/17.

Financial Review



Artist's impression of the interior of the new National Performance Centre for Sport.



FINANCIAL STRATEGY

The University's broad financial strategy is reflective of the targets set out in the Strategic Plan and key among these is the target to grow income from £150 million to £235 million. The growth in total income is underpinned by growth in student numbers and in income from Research Grants and Contracts. Income growth will be supported by strong recruitment trends for fee paying students in Edinburgh, Dubai, and particularly Malaysia where the projected increase in student numbers is from nil to over 2,500 by 2018.

GROWTH OF RESEARCH GRANT AND CONTRACT INCOME

Research intensification is one of the key strands of the University's Strategic Plan. In financial terms the objective is to grow Research Grant and Contract income from £23 million in 2011/12 to £40 million by 2017/18. This growth will be underpinned by the Global Platform initiative which seeks to recruit up to 100 high calibre members of academic staff to work alongside the existing academic community over the next five years. In November 2013 the University made its submission to the 'Research Excellence Framework' (REF) which is the successor to the Research Assessment Exercise (RAE). The outcome from REF will be known by the end of 2014 and will determine the 'research excellence grant' (currently around £10 million per annum) for the next five years. RAE/REF gradings are a critical element in the perception of a university's research standing and thus the REF outcome will be of major strategic importance.

Heriot-Watt's key financial targets are to grow income by over 50% and to achieve annual operating surpluses of at least 7% of income over the next five years

GROWTH OF OPERATING SURPLUSES

The University's financial strategy is founded not only on growth in income, but on plans to grow operating surplus from 3% to 7% of total income.

A baseline surplus of income over expenditure of 3% is set as a prudent minimum to avoid the possibility of incurring a deficit. However, over the Plan period, intended surpluses rise to greater than 7%, in order to constrain the requirement for borrowing to support investments. Achieving such surpluses will require considerable discipline in order to grow expenditure more slowly than income. The planned surpluses build in provision for contingency against the non-achievement of challenging income targets and assume that the University will continue with its programme of strategic investments in new academic staff and supporting activities. In the absence of shortfalls in research and tuition fee income, or against the targets in the Malaysia business plan, the contingency provision would be assigned for identified medium-scale investments, primarily in improvements to the estate or to increase the surplus.

The growth in operating surplus, supplemented, where necessary by a modest increase in borrowings, will fund capital plans which will support the delivery of the strategy. The five year financial planning model includes capital plans for:

- Up to £30 million expenditure on around 450 bed spaces in new student residences, to replace facilities nearing the end of their useful life and to provide for growing student numbers
- The development of a National Performance Centre for Sport, a £30 million venture, to be supported by £25 million from the Scottish Government, £2.5 million from the City of Edinburgh Council and £2.5 million from the University's own resources, (opening in 2016)
- A project to co-locate the British Geological Survey and Heriot-Watt University staff and postgraduate students and create a new national scale facility for the geosciences, marine sciences and related engineering disciplines, notably in the energy sector. The capital cost of the University's part of the building is estimated at £8 million offset by a Scottish Funding Council grant of up to £3.5 million
- An estimated £14 million expenditure on the significant development of academic space to accommodate the expansion in numbers of research active staff associated with the University's Global Platform initiative
- £3 million to meet a number of requirements for improved information systems in the University.

Recent and planned increases in numbers of students on the Edinburgh Campus require further provision of teaching space. In the medium term that requirement has been met by assigning part of the University's conference facilities to teaching.

SCOPE OF THE FINANCIAL STATEMENTS

The financial statements, which have been approved by the Court for the year-ended 31 July 2013, comprise the consolidated results of the University and its subsidiary undertakings, together the 'Group'.

RESULTS FOR THE YEAR

The Group reported a surplus of £4.2 million for the year 2012-13. Although this represents a reduction of £2.2 million on the prior year, it was £1.1 million ahead of plan.

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

INCOME GROWTH

In 2012-13 the Group achieved income growth of 13% (2012: 4%) with total income increasing by £20 million to £176 million (2012: £156 million). Growth was seen across most of the Group's main income categories.

The trend of generally decreasing funding body grants reversed this year, with resources for learning and teaching being boosted by support for additional funded places to widen access and for strategically important subjects in undergraduate and postgraduate programmes. The Scottish Funding Council made an additional grant towards research via its 'Global Excellence' initiative which assists Scottish universities to do well in international league tables.

Results for the Year

	2012-13 £m	2011-12 £m	2010-11 £m	2009-10* £m	2008-09 £m
Income	175.5	155.6	150.3	142.7	134.5
Year on year %	+12.8%	+3.5%	+5.3%	+6.1%	+14.2%
Expenditure	(171.3)	(149.2)	(144.8)	(135.6)	(133.9)
Year on year %	+14.8%	+3.0%	+6.8%	+1.3%	+15.0%
Net Surplus	4.2	6.4	5.5	7.1	0.6

* restated to reflect the prior year adjustment required to reflect the change in June 2010 where increases in public sector pension schemes were linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI).

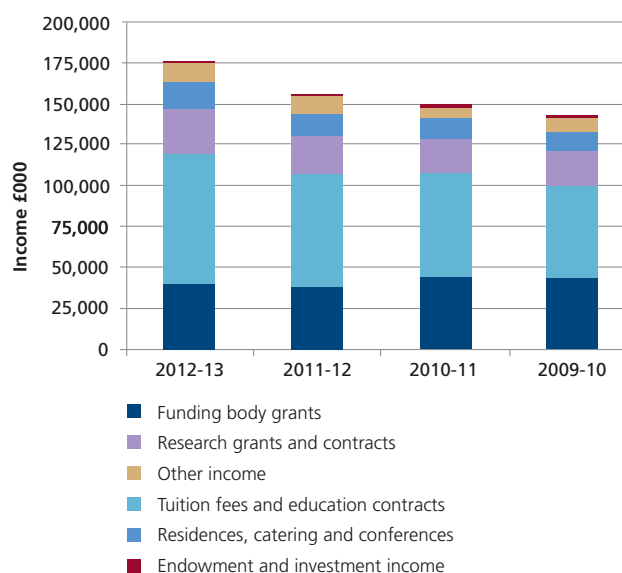
Tuition fees and education contracts grew by £11.6 million over the year to £80.3 million (2012: £68.7 million). There were two main contributors to this growth:

- Almost £3.5 million of this relates to UK and EU students studying on Scottish Campuses, where, although there was only a modest overall growth in these student numbers, the introduction of tuition fees, for the first time, for undergraduate students from England, Wales and Northern Ireland, brought additional income.
- Over £8 million of the growth can be attributed to significant growth in student numbers and fees from international students studying in the UK; on international campuses; as independent distance learners; or from those studying with our international approved learning partners.

The £4.2 million growth in research grant and contract income to £26.9 million (2012: £22.7 million), reflects the University's efforts to grow this category of income, mainly through investment in research active staff as part of the Global Platform initiative.

Growth in other income was from residences and catering, reflecting the opening of the new residences in Edinburgh and Galashiels in September 2012.

INCOME GROWTH



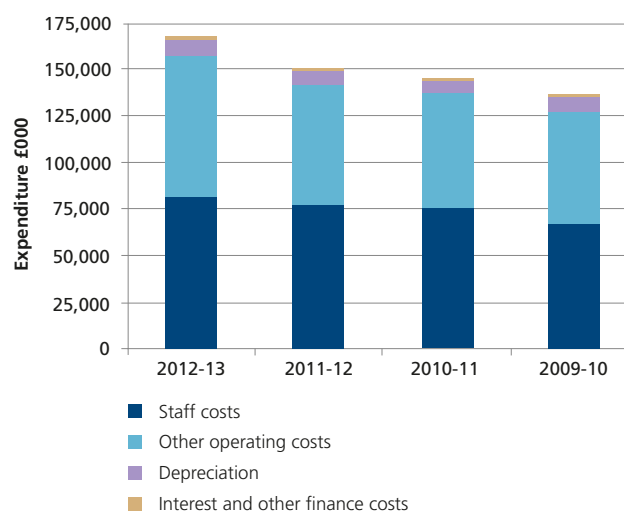
Growth in Student Numbers

	2012-13	Change	2011-12
Scottish Campuses			
Undergraduates	6,230	0.8%	6,180
Taught Postgraduates	1,565	-2.2%	1,600
Research Postgraduates	920	9.5%	840
	8,715	1.1%	8,620
Dubai Campus			
Undergraduates	2,265	24.8%	1,815
Taught Postgraduates	1,185	26.7%	935
	3,450	25.4%	2,750
Malaysia Campus			
Taught Postgraduates	16	-	-
TOTAL ON-CAMPUS	12,181	7.1%	11,370
Independent Distance Learners and Students at Approved Learning Partners			
Undergraduates	4,320	3.6%	4,170
Taught Postgraduates	10,200	8.0%	9,445
Research Postgraduates	255	2.0%	250
	14,775	6.6%	13,865
GRAND TOTAL	26,956	6.8%	25,235

EXPENDITURE

Staff costs increased by 7.6% compared to the previous year. With 1% being attributable to the pay award in 2012, this increase arises from growth in staff numbers, reflecting the investment in new active research academics, and to automatic increments in pay scales. Further disclosures are shown in Note 7 to the financial statements. Increases in other operating expenditure reflect the success in growing the University's research activity, and are also due to a one-off impairment of fixed assets during 2012-13. Growth in depreciation for the period reflects the opening of the new residences, which has also been reflected in the higher interest costs that have been borne in financing that capital development.

EXPENDITURE



NET ASSETS

At the end of the year, the Group had net assets of £77.7 million (2012: £70.8 million), an increase of £6.9 million on the previous year. With no significant capital expenditure over the year, there was little movement in the value of the fixed assets. Endowment assets grew by a net £1 million, reflecting better returns on the underlying investments, as well as a modest but steady growth in the funds from donations. The upward movement in cash reflects net cash inflows from operating activities across the Group, and also the draw-down of funds from a revolving credit facility in anticipation of the last invoices for the residence projects.

CREDIT AND LOANS

The Group's £40 million revolving credit facility, agreed in 2007, has provided stability with secure funding sources in place during a period of extraordinary turmoil in the financial markets. At the year-end, drawings totalling £25 million (2012: £20 million) had been made against this facility. Of this, £20 million is protected from financial market volatility by long-term interest rate swaps. The lending is at very competitive rates and there is no penalty for the unused portion of the facility.

The University has a term loan, agreed in May 2011, to fund the development of new student residences on the Edinburgh and Scottish Borders Campuses. Having previously drawn £20.5 million, the remainder of that facility was drawn during the year, bringing the total to £25 million, over which interest rate swaps of 50% of that value have been put in place.

PENSIONS

The Group's employees are members of one of four pension schemes, the Universities Superannuation Scheme (USS), the Lothian Pension Fund (LPF), Supplementary Pension Scheme (SPS) and the Scottish Teachers Superannuation Scheme (STSS).

Details of the accounting policies are set out in Note 1 and further disclosures are set out in Note 28. All four schemes provide benefits to members based on final pensionable pay. For the Lothian Pension Fund 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.

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

Both USS and LPF published their latest triennial valuation reports, for which the reference date is 31 March 2011, in December 2011 and January 2012 respectively.

In 2013 the Group was required to adopt arrangements to facilitate pension 'auto enrolment'. The changes were implemented successfully in time for the University's staging date in July 2013.

PAYMENT OF SUPPLIERS

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 2013 there were 13 days (2012: 15 days) of purchases in trade creditors. No interest was payable under the terms of the Late Payment of Commercial Debts (Interest) Act 1998.

MINORITY INVESTMENTS

For a number of years the Group has had 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 2013 there were 15 investments (2012: 15) in a range of different companies. The market value of these investments is not reflected in the Group's financial statements.

The University is working to increase its financial resilience and agility and to promote an entrepreneurial approach across all operating units







OUTCOME AGREEMENT

In autumn 2011, the Scottish Funding Council (SFC) acted on advice from the Scottish Government to establish Outcome Agreements with Scottish Universities. From 2012/13, the agreements, which are negotiated individually between the Funding Council and institutions, have been framed to ensure improved outcomes would be delivered by Scottish universities in specific areas, including notably widening access to increase the number of students from deprived areas of Scotland entering the University; new pathways for increased numbers of students to progress from Scottish further education colleges to the University; increasing skills training in various topics; increasing various aspects of equality and diversity in the University; increasing Scottish universities' global research competitiveness; and increasing university/industry collaboration in Scotland.

The University has welcomed this opportunity to demonstrate alignment of its activities with Government priorities and, through the negotiation of Outcome Agreements for 2012/13 and 2013/14, has secured additional resources from SFC to advance the targeted outcomes.

EMPLOYEE COMMUNICATION

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.

A series of internal communications activities are undertaken ensuring that staff are adequately informed and encouraged to engage with the implementation of the University's Strategic Plan. The Principal and Vice-Chancellor holds annual town hall meetings where progress in the preceding year is presented. In order to include all campus staff, the meetings are timed to coincide with the Vice-Chancellor's visits to overseas campuses. Podcasts are also made available. These occasions give all staff an opportunity to ask the Principal and Vice-Chancellor questions in person.

In addition, there is a series of written communications provided for staff on internal pages of the University website, detailing progress at the University's various committees. An electronic newsletter is produced on average twice a month and a printed newsletter once a month. Face to face communication takes place between managers and staff and a team briefing system is in place to ensure the cascade of relevant information.

Opportunities are available for staff to ask general questions or make comments through both electronic means or by the more traditional method of posting questions.

Heriot-Watt's excellent professional management is key to sustaining its financial health and facilitating investment in the expansion of the estate and systems to support its ambitious strategy



EQUALITY AND DIVERSITY

Heriot-Watt University embraces a positive attitude towards the promotion of equality and diversity and takes pride in its efforts to create a working, educational and social atmosphere which is inclusive of everyone. The University takes a holistic approach to equalities, looking to establish and maintain an open and accessible working and learning environment where students and staff are able to reach their full potential.

The development of the University's Equality Outcomes has been led by the Equality and Diversity Advisory Group (EDAG). The Group is chaired by the Secretary of the University and is made up of representatives from across the University Community including Trades Unions and the Student body. The Equality Outcomes are articulated in four overarching outcomes created to have impact across the entire equality and diversity agenda. The Outcomes are an ambitious statement of where the University will be in 2017. The Outcomes impact across all those protected characteristics prescribed by the Equality Act 2010.

The equality outcomes are to:

- create improved measures
- enhance reporting
- increase awareness and skills and
- deliver a culture of inclusion for all.

Consistent with the obligations under the Equalities Act 2010, in April 2013 the University published a report on its Equality Outcomes, as well as on Equal Pay Gap Information, an Equal Pay Statement and a Mainstreaming Equality Report. These can all be accessed at <http://www.hw.ac.uk/equality/ElimIndex.htm>

The Athena SWAN Charter recognises commitment to advancing women's careers in science, technology, engineering, maths and medicine (STEMM) employment in higher education. Heriot-Watt University was a founding member of the Charter in 2005. The University held a Bronze Award between 2007-2011. In September 2013, the University was successful in achieving a Bronze Award.

EMPLOYMENT OF DISABLED PERSONS

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. The University has a policy for the employment of people with disabilities. The main elements are:

- The University is committed to ensuring that disabled people receive full and proper consideration throughout the whole recruitment process
- Candidates who meet the minimum criteria will be guaranteed an interview
- Subject to available resources, the University will provide or obtain, through grants or aid from the Disability Employment Service, any practical equipment or modification which will enable disabled people to undertake full employment.

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.

ENVIRONMENTAL SUSTAINABILITY

The University is committed to operating its facilities in a responsible way with concern for the environment and for the communities in which it operates. In order to achieve this objective, the Court has determined that Heriot-Watt University will:

- Operate its facilities to meet and, if possible, improve on legal environmental requirements
 - Develop knowledge of the environmental impact of its activities, seeking to move towards long-term principles of sustainability
 - Include environmental issues within investment and business decisions
 - Avoid the use of non-replaceable resources wherever possible
 - Use, wherever practicable and consistent with required levels of quality, waste and recycled materials
 - Influence, by its purchasing power, suppliers to adopt responsible environmental policies
- Work to improve environmental performance continually, particularly by:
 - Minimising the use of fossil fuels by good practice in transport both of people and of goods being supplied
 - Minimising the release of waste materials to the environment
 - Preventing pollution at University sites
 - Work towards the adoption of an Environmental Management System for the University, such as ISO 14001
 - Involve and inform staff, students, visitors and other stakeholders to develop their awareness of environmental issues
 - Liaise with the local communities and their representatives where the University operates on environmental matters.

STUDENT REPRESENTATION

The University has had a long and successful track record of involving its students in decision-making with positive influence on key areas of performance. Students are represented on University Court and several Committees of Court.

DONATIONS

No donations were made during 2012-13 to UK political organisations.

INSURANCE

The Group has insurance policies in place for its officers and for potential claims against them in connection with their role in managing the organisation. In addition, insurance policies are in place to cover all relevant areas of risk in relation to the University's activities and assets.



Professor Stephen K Chapman
Principal and Chief Accounting Officer

16 December 2013

Lord George Penrose
Chairman of Court

16 December 2013

The University's ethos is to engender a positive, creative and collegial partnership among all staff and students and to actively promote equality and diversity

Corporate Governance Statement

INTRODUCTION

The University is committed to adopting best practice in all aspects of corporate governance and this statement describes the principal governance provisions which currently apply. The University Court keeps these provisions under review to take account of best practice from time to time including the principles set out in the Committee of University Chairs (CUC) Guide for Members of Higher Education Governing Bodies in the UK. In addition, the Court ensures compliance with all relevant legislation for which it, as the University's governing body, is accountable.

In the opinion of the Court, the University complied with the 'Governance Code of Practice and General Principles' which form part of the CUC Guide and the wider provisions of the Guide throughout the year ended 31 July 2013. In accordance with advice from the CUC and the Scottish Funding Council (SFC), the University aims to comply with the UK Corporate Governance Code requirements in so far as these may be applied to the higher education sector.

The Court regularly reviews its governance provisions in accordance with both the recommendations made by the SFC and the relevant external codes of practice. The new Scottish Code of Good Higher Education Governance was published in July 2013 and an action plan and timetable is being prepared for Court approval with a view to compliance with this new Code being achieved by the end of 2013/14.

The Charter and Statutes represent the primary governance and regulatory framework for the University:

- the Charter defines the objects, powers, principal officers, and the Court and the Senate of the University,
- the Statutes prescribe the requirements for the appointment, powers, duties and conditions of service of officers and members of staff, the membership and functions of the Court and the Senate, and the establishment and approval of the Ordinances and Regulations.

Under the terms of the University Charter, the Court is the governing body of the University and carries ultimate responsibility for all of its affairs including those in relation to financial and contractual issues and academic undertakings. The Court is also responsible for safeguarding the University's reputation and values and for ensuring that it is responsive to the interests of its stakeholders, including students, staff, alumni, the wider community and funding bodies.

The Senate is the supreme academic body of the University with responsibility for its academic work and standards, both in teaching and in research.

The Court has ultimate authority in regulating the University's affairs in relation to financial and contractual issues, and is responsible for overseeing the leadership, management and administration of all activities



GOVERNING BODY

Responsibilities

The University's Charter defines the powers of the Court, thus:

"The Court shall have the custody and disposition of all the property of the University and the control of the finances and shall review the work of the University and, subject to the powers of the Senate, shall take such steps as it thinks proper for the purpose of advancing the interests of the University, maintaining its efficiency, encouraging teaching, the pursuit of learning and the prosecution of research therein, and for providing facilities for the recreation and well-being of students and of staff."

To discharge its responsibilities the Court met six times during the year 2012/13, including at an annual strategy review 'Away Day'. In addition, Court members participated in an externally facilitated governance workshop which formed part of the Court's rolling effectiveness review programme. The Court has agreed to establish a second Away Day in the autumn of each year starting in 2013. The primary focus of this meeting will be the University's performance against the agreed Key Performance Indicators underpinning the Strategic Plan.

The principal business of the Court includes consideration and approval of strategic plans and associated key performance indicators and annual budgets. In October 2012, the Court approved the University's new Strategic Plan 2013-18 which enumerated the relevant Key Performance Indicators. Each June the Court considers and approves a Five Year Financial Plan which is concomitant to the Strategic Plan.

At each of its meetings, the Court receives an executive briefing from the Principal which updates the Court on matters concerned with the work of the University Executive. In addition, the Court receives a regular report from the Senate, oral updates from the Chair and from student representatives and reports from each Court committee which has met in the preceding period. Reports from Court committees are based on the minutes of meetings, thereby representing the full business of the committee. Information is presented for the Court to note and comment on and, where relevant, for the Court to approve.

The Court's Statement of Primary Responsibilities is published at: <http://www.hw.ac.uk/committees/court/statement-of-primary-responsibilities.pdf>

The above Statement provides clarity on the decision-making authority of the Court and the authority delegated by the Court to the Principal and Vice-Chancellor of the University for the academic, corporate, financial, estate and human resources management of the University. The Court is responsible for approving the mission and strategic vision of the University, long-term academic and business plans and key performance indicators. Significant projects, such as the Malaysia Campus project and the Centre for Earth and Marine Technology development, for example, are considered by the Court for approval on the basis of recommendations from both the University Executive and the Finance Committee of Court which is responsible for detailed scrutiny of business plans. In the case of the Malaysia Campus project which is a major development, the Court also considered the reports and recommendations of the Oversight Board established for the purpose of providing governance oversight of the project.

Court Membership

The Court includes twenty five members including the Chair, who is appointed from within its independent lay membership. The independent membership comprises eleven lay members. A further eleven members (both internal and external to the University) have been directly elected to the membership and a further three are members in an ex-officio capacity.

Regular further attendees at meetings of the Court include the Secretary of the University, the Director of Governance and Legal Services and the Director of Finance, thereby ensuring that relevant additional advice and expertise is readily available to the Court when required during meetings. The Secretary of the University is the Clerk to the Court.

During the year 2012/13, members of the University Executive and University Deans were invited to attend meetings of the Court as observers. Individual staff members are also invited to attend for specific agenda items where their particular area of expertise will add value to the discussion and decision-making process.

Committees of Court

The Committees of Court assist the Court in discharging its responsibilities in relation to: strategic planning and monitoring of human resources; estate; finance and asset management; risk and audit; and governance effectiveness and control. The Terms of Reference of each of the Committees of Court are reviewed annually and approved by the Court, ensuring that there is clarity around delegated powers and lines of accountability. The Committees of Court are described below:

- The Emergency Committee of Court may exercise the full powers of the Court to act during vacations or, when necessary, between meetings of the Court. The Committee is chaired by the Chair of Court and includes in its membership the Principal, the Vice-Principal and independent lay members of Court who are Committee Chairs.
- The Court has a Remuneration Committee which is made up of independent lay members with the Principal and the Secretary of the University in attendance but who are not present when their personal remuneration is considered by the Committee. The Remuneration Committee meets at least once each year under the convenership of the Chair of Court to review and determine the salary and other remuneration, including performance reward payments and conditions of service, of the most senior management staff of the University (i.e. staff remunerated at Grade 10 on the nationally agreed higher education framework single pay spine), and to deal with any other relevant remuneration matters which may be referred to the Committee by the Court.

The Remuneration Committee reports annually to the Court providing information on decisions made in relation to the salaries and conditions of service, and the capture of data and other information that were used to inform the Committee's decision.

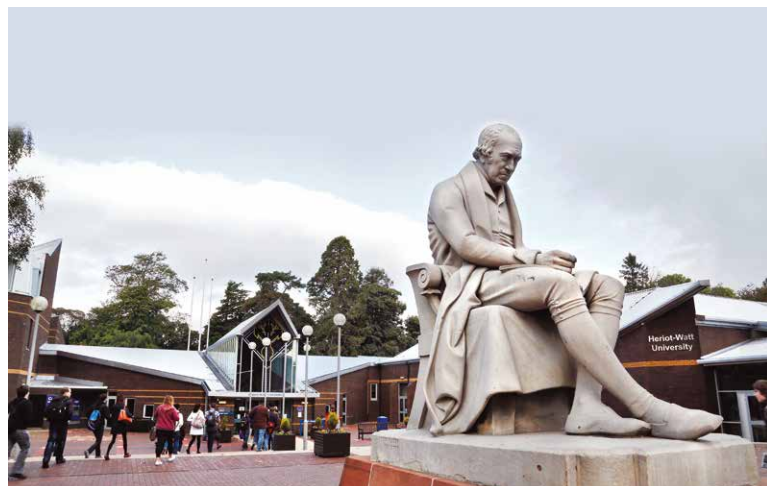


- The Court has a Governance and Nominations Committee made up of independent lay members, the Principal and the Vice-Principal, and staff and student members of the Court. The Governance and Nominations Committee advises the Court on all matters relating to governance, the conduct and effectiveness of Court business and the appointment of independent lay members to the Court and the standing committees of Court. The Governance and Nominations Committee meets at least twice per year under the convenership of the Chair of Court.

During the year just ended the Committee has undertaken an open recruitment campaign to identify and select suitable independent lay members to recommend for membership to the committees of Court to fill currently existing and future vacancies. Advertising was carried by Scottish and UK press. Acting with the authority of the Court, the Committee has also appointed external search consultancy, Perrett Laver, in the University's search for a Chair of Court to succeed the current Chair, Lord Penrose, from 1 August 2014. The above external search consultancy company has no other current connection with the University.

The principles of equality and diversity lie at the centre of the University's values, are upheld through University policy and emphasised throughout the University's recruitment processes. In the Court committee recruitment campaign expressions of interest were especially encouraged from women, recognising that women are under-represented on Court and on the Committees of Court.
 - The Court has an Audit and Risk Committee which is made up of independent lay members. The Committee met seven times during the year, each meeting with the External Auditors and the Internal Auditors present. The Audit and Risk Committee provides an independent oversight of, and advice to Court, on the adequacy and effectiveness of the University's financial control systems and accounting procedures, ensuring that appropriate levels of external and internal audit are maintained. The Committee acts as the Court's independent scrutineer not only of the University's financial systems, but also examines matters critically and is alert to potential areas of concern including fraud and malpractice. The Audit and Risk Committee also reviews and advises Court on the adequacy and effectiveness of the University's risk management, control and governance arrangements to promote efficiency, economy and effectiveness so as to secure value for money in all areas.

The Audit and Risk Committee commissions, receives and considers reports and recommendations for the improvement of internal controls along with management responses. The Audit and Risk Committee reports to the Court at each of its meetings on the content of its business, conveying recommendations of the Committee as appropriate.
 - The Court has a Finance Committee which is made up of independent lay members and members of the executive team. It met four times during the year and the following four committees report to it: the University Collections Committee; the Endowments Committee; the Campus Committee; and the Fees Working Group. The Finance Committee reviews and oversees and advises Court on the overall financial strategy and financial forecasting in relation to the University's Five Year Financial Plan including borrowing arrangements, the financial requirement for delivery of the University's Strategic Plan and Estate, People and IT strategies, the financial performance against appropriate benchmarked key performance indicators, financial risk and financial control. The Finance Committee also reviews the University's annual accounts and financial statements and the External Auditor's report. The Finance Committee reports to the Court at each of its meetings on the content of its business, conveying recommendations of the Committee as appropriate.
 - The Court has a Staff Committee which is made up of independent lay members and members of the executive team. It met four times during the year and advises Court on the human resources strategy in relation to the University's strategic objectives, legislative changes and best practice, human resources policy and practice, matters relating to international staff governance, and equality and diversity.
- The terms of reference of each of the above committees are available through the relevant links at <http://www.hw.ac.uk/committees>



Effective Governance

As part of a rolling five-year programme of Effectiveness Reviews, in 2011/12 the Court undertook a review of its own effectiveness and that of the Staff, Finance and Audit and Risk Committees of the Court. In 2012/13, the Court has continued to implement positive governance changes in the light of the outcomes of that review. These developments were augmented in January 2013 by an externally facilitated workshop focused on the effectiveness of the Court.

To support effective governance, the Court has agreed that a review of the University's Charter and Statutes and supporting Ordinances and Regulations should be undertaken with a view to modernising these. The aim of the review and revision to the University's governing instruments is to ensure that these are fit for future purpose, reflecting the changing nature of the University, ensuring also that they reflect best practice, as set out in the new Scottish Code of Good Higher Education Governance.

All Court and Court committee members are provided with tailored induction at an all-day event organised each year. In addition, opportunities are used at Court Away Days to focus on specific areas to increase members' knowledge and understanding of aspects of the business, e.g. a research environment focused Away Day in May 2013. Court members are regularly informed of seminars and conferences, for example those offered by the Leadership Foundation for Higher Education through its Governor Development Programme, and are supported to attend these. With a view to augmenting the annually provided information forming the governors' induction pack, all members receive, via the Principal's regular briefing to the Court, relevant items of external news and advice on recently released governance related publications. A programme of visits to academic schools and professional service sections of the University throughout the year deepens Court members' understanding of the work of the University.

Independence

The Court is satisfied as to the independence of the appointed lay membership of the Court. Appointments are made following open advertising and against clear criteria taking into account the requirements of diversity and independence.

Reporting of Interests

The Group has taken necessary steps to ensure compliance with FRS8 on Related Party transactions. Any interests which, under this accounting standard, would require to be disclosed to members of Court would be made with appropriate recording in the Court minutes.

The Registers of Interests of members of both Court and Court committees and members of the University Executive and Director-level staff are maintained by the Secretary of the University and updated annually.

The Court is responsible for safeguarding the reputation and values of the University and for ensuring that it is responsive to its stakeholders, including students, staff, alumni, the wider community and funding bodies

CORPORATE STRATEGY

Following its approval by the Court in October 2012 the University's new Strategic Plan was published, submitted to the Scottish Funding Council, and formally launched at an event held in the House of Commons on 1 May 2013.

The new Strategic Plan was developed over a period which ran across financial years 2011/12 and 2012/13. Through an extensive process of consultation and stakeholder involvement, through themed workshops and other meetings, Court members were individually involved in developing the University's new Strategic Plan.

The University's supporting Five Year Financial Plan is reviewed and updated on an annual basis. The 2013–2018 Financial Plan was approved by the Court at its meeting in June 2013 prior to being submitted to the Scottish Funding Council at the end of June 2013. Throughout their annual schedule of meetings the Court and the Finance Committee of Court receive regular reports from the Vice-Principal on the development of the Five Year Financial Plan and any issues arising.

RISK MANAGEMENT

The University acknowledges the risks inherent in its activities, and is committed to managing those risks both to create value in times of uncertainty and to address those that pose a significant threat to the achievement of its academic and business objectives, its financial health or its reputation. The systems for risk management and internal controls exist to manage and control the risk of failure to achieve academic and business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the University and these risks are reviewed regularly by the Risk Management Strategy Group, University Executive, Audit and Risk Committee and the Court.

The Court, advised by the Audit and Risk Committee, has overall responsibility for reviewing the effectiveness of the systems of internal control and risk management. The University has developed and adopted a formal and structured risk management policy and system to ensure that key risks are identified, prioritised and managed consistently across the University. The policy and system are reviewed and updated on a regular basis. Reports documenting the policy, system and procedures and issues arising are reported to the Audit and Risk Committee on a regular basis.

The Risk and Control Framework

The University Executive and the Risk Management Strategy Group lead the University's risk management process. Ownership of each identified strategic risk lies with a named member of the senior management group. At the operational level, the Heads of Schools and Heads of Directorates identify and manage risk and review risk in their areas of responsibility on a regular basis.

The University Executive and the Risk Management Strategy Group receives and reviews the University's strategic risk register at quarterly intervals. The Audit and Risk Committee review, quarterly, the effectiveness of the University's risk management framework and the content and appropriateness of its strategic risk register. In addition, the Court reviews the risk and control framework annually.

The key elements of the University's risk management strategy are:

- a documented and communicated process of identifying and evaluating risks, assessing risk appetite, identifying and implementing suitable responses to risks, providing ongoing assurance about the effectiveness of the framework and processes to embed and review risk awareness. The risk management strategy is reviewed on a three yearly cycle by the Risk Management Strategy Group, the University Executive and the Audit Committee;
- multi-level review and reporting processes throughout the risk cycle, involving staff, Heads of Schools, Directors and managers, the University Executive, Internal Audit, the Audit and Risk Committee and the Court; and
- identification and regular review of both the continuing appropriateness of the risks and responses identified and of the on-going status of the identified or planned responses to risks.

The key ways in which risk management is embedded across the University are:

- the link between strategic and operational planning and the risk management processes;
- including risk in routine, regular operational reporting processes;
- the ownership, management and oversight of risks by the Risk Management Strategy Group, University Executive, Heads of Schools, Directors and managers;
- involving the Audit and Risk Committee and the Court in agreeing and reviewing strategic and operational risks;
- using risk registers for each of the University's Schools, Services and Projects; and
- the monthly, quarterly and annual reviews of strategic and operational risk profiles.

The key controls that are built into routine processes are:

- ensuring appropriately skilled and experienced staff are responsible for business processes;
- documented procedures exist for all key business processes;
- management and independent checking ensure quality of processing; and
- management information is available to assess the volume, timeliness and quality of processing.

More generally, the University is committed to a process of continuous development and improvement. The University has continued to deliver workshops to staff on both the principles of risk management and the practical application of risk management within the University. Risk awareness forms part of the induction for all new staff. Regular review and reporting of risks has taken place throughout the year, with reviews and reports being considered at all levels.

The University's risk management framework is reviewed quarterly for effectiveness and a system of internal control designed to manage risk is in place

INTERNAL CONTROL

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks, including information risks, to achieving strategic and operational aims and objectives; to evaluate the likelihood of those risks being realised and the impact should they be realised; and to manage them efficiently, effectively and economically. The wider system of internal control is based on an ongoing process designed to identify the principal risks to achieving the University's policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The system of internal control has been in place in the University for the year ended 31 July 2013, and up to the date of approval of the annual report and accounts.

Review of Effectiveness of the Internal Control System

The University appointed Ernst & Young in 2011 to provide the University's internal audit services. The service is monitored and managed by the Head of Risk and Audit Management and reports to the Secretary of the University. Internal audit work concentrates on areas of key activity determined from an analysis of the areas of greatest risk. These are scheduled in the annual audit plan approved by the Audit and Risk Committee. The annual audit plan is subject to review during the year in the light of changing risks and priorities.

It is the responsibility of the University Executive to:

- ensure a thorough and regular evaluation of the nature and the extent of the risks to which the University is exposed and the establishment and embedding of effective risk management processes and systems of control; and
- receive, comment on and act on the University Internal Audit forward plan; audit reports on reviews undertaken; reports on the University's progress in actioning internal audit recommendations; and the Internal Auditor's Annual Report.

The Audit and Risk Committee receives regular reports from the Internal Auditors. These include the Internal Audit's independent opinion on the adequacy and effectiveness of the University's system of internal control and recommendations for improvement.

The Audit and Risk Committee regularly receives progress reports on the implementation of Internal and External Audit recommendations.

The University's Internal Auditors issue an annual Assurance Statement that provides the University with an opinion on the adequacy and effectiveness of the internal control system and the extent to which it can be relied on. For the year to the end of 31 July 2013, they reported that the University has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the University's objectives and the management of key risks. The External Auditors also report to the Director of Finance, the University Executive and

the Audit and Risk Committee on any internal control issues that they identify during their normal audit activities.

The Audit and Risk Committee's review of the effectiveness of the system of internal control is informed by:

- the comprehensive management information received by the University Executive on all University operational activities;
- the controls that exist over planned expenditure and the regular reporting of actual expenditure and regular review of budgets and forecasts;
- the managers within the University who are responsible for developing and maintaining the internal control framework;
- the work of the internal auditors, who submit to the Audit and Risk Committee regular reports which include the independent and objective opinion on the adequacy and effectiveness of the University's systems of internal control, together with recommendations for improvement; and
- comments made by the external auditors in their management letter and other reports.

GOING CONCERN

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



Professor Stephen K Chapman
Principal and Chief Accounting Officer

16 December 2013



Lord George Penrose
Chairman of Court

16 December 2013

Statement of Responsibilities of the University Court in Relation to the Accounts

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

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

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

The Court has taken reasonable steps to:

- a) 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;
- b) ensure that there are appropriate financial and other internal controls in place to safeguard public funds and funds from other sources, and ensure value for money is achieved in the application of those funds. This system of internal control is continuously reviewed and developed in line with current best practice;
- c) safeguard the assets of the Group and prevent and detect fraud;
- d) secure the economical, efficient and effective management of the Group's resources and expenditure;
- e) ensure that the Group's Executive 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; and
- f) maintain a safe and secure environment for the staff and students.

The Group believes that the delivery of its mission by its charitable activities provides continuing public benefit and it aims to comply with the Office of the Scottish Charity Regulator's regulatory requirements, including the requirement to maintain independent control by its trustees.



Professor Stephen K Chapman
Principal and Chief Accounting Officer

16 December 2013



Lord George Penrose
Chairman of Court

16 December 2013

Independent auditor's report to the University Court of Heriot-Watt University

We have audited the Group and University financial statements of Heriot-Watt University for the year ended 31 July 2013 set out on pages 41 to 70. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective responsibilities of the University Court of Heriot-Watt University and auditor

As explained more fully in the statement of responsibilities of the University Court set out on page 38, the University Court of Heriot-Watt University is responsible for the preparation of the financial statements which give a true and fair view. We have been appointed as auditor under section 44 (1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and report to you in accordance with the regulations made under that Act. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Independent auditor's report to the University Court of Heriot-Watt University (continued)

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and University's affairs as at 31 July 2013 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education; and
- have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matters prescribed by the terms of our engagement

In our opinion, in all material respects:

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

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

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

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



David Watt

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

KPMG LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

Saltire Court
20 Castle Terrace
Edinburgh
EH1 2EG

18 December 2013

Consolidated Income And Expenditure Account for the year ending 31 July 2013

	<i>Note</i>	2013 £000	2012 £000
Income			
Funding body grants	2	39,495	38,574
Tuition fees and education contracts	3	80,360	68,708
Research grants and contracts	4	26,952	22,748
Other income	5	28,112	25,105
Endowment and investment income	6	594	512
Total Income		<u>175,513</u>	<u>155,647</u>
Expenditure			
Staff costs	7	82,957	77,136
Other operating costs	8	78,024	64,811
Depreciation	10	10,034	7,425
Interest and other finance costs	9	1,929	957
Total Expenditure		<u>172,944</u>	<u>150,329</u>
Surplus on continuing operations after depreciation of tangible assets and before taxation		2,569	5,318
Gain on disposal of assets		-	25
Surplus on continuing operations after depreciation and disposal of assets but before taxation		<u>2,569</u>	<u>5,343</u>
Taxation		-	(229)
Surplus on continuing operations after depreciation and disposal of assets and taxation		<u>2,569</u>	<u>5,114</u>
Transfer from net accumulated income in endowment and restricted funds		1,657	1,275
Net surplus for the year retained within general reserves	22	<u>4,226</u>	<u>6,389</u>

All transactions are in respect of continuing operations.

Consolidated statement of total recognised gains and losses for the year ending 31 July 2013

	<i>Note</i>	2013 £000	2012 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		4,226	6,389
Appreciation of endowment asset investments	14	2,171	1,248
(Decrease) in endowment asset cash balances held	14	(1,208)	(819)
Actuarial gain/(loss) in respect of pension schemes	28	2,363	(6,457)
Total recognised gains relating to the year		<u>7,552</u>	<u>361</u>
Reconciliation			
Opening reserves and endowments		27,967	27,606
Total recognised gains relating to the year		<u>7,552</u>	<u>361</u>
Closing reserves and endowments		<u>35,519</u>	<u>27,967</u>

Balance Sheets as at 31 July 2013

		<i>Group</i>		<i>University</i>	
	<i>Note</i>	2013	<i>2012</i>	2013	<i>2012</i>
		£000	£000	£000	£000
Fixed Assets					
Tangible assets	10	128,446	128,260	121,693	121,793
Intangible assets	11	21	71	-	-
Investments	12	5,045	5,045	11,204	9,208
Total Fixed Assets		<u>133,512</u>	<u>133,376</u>	<u>132,897</u>	<u>131,001</u>
Endowment Assets	14	<u>10,056</u>	<u>9,093</u>	<u>8,491</u>	<u>7,789</u>
Current Assets					
Stock		15	7	8	-
Debtors	15	33,620	30,518	38,087	35,286
Short term investments	12	-	2,000	-	-
Cash at bank and in hand		<u>26,357</u>	<u>14,138</u>	<u>14,732</u>	<u>3,383</u>
		59,992	46,663	52,827	38,669
Less: Creditors - amounts falling due within one year	16	(60,479)	(54,477)	(63,374)	(56,841)
Net Current Liabilities		<u>(487)</u>	<u>(7,814)</u>	<u>(10,547)</u>	<u>(18,172)</u>
Total Assets less current liabilities		143,081	134,655	130,841	120,618
Less: Creditors - amounts falling due after more than one year	17	(49,695)	(45,622)	(53,386)	(49,165)
Less: Provisions for liabilities	18	(526)	(581)	(526)	(581)
Net Assets excluding pension liability		<u>92,860</u>	<u>88,452</u>	<u>76,929</u>	<u>70,872</u>
Pension liability	28	(15,208)	(17,685)	(15,131)	(17,560)
Net Assets including pension liability		<u><u>77,652</u></u>	<u><u>70,767</u></u>	<u><u>61,798</u></u>	<u><u>53,312</u></u>

Balance Sheets as at 31 July 2013 (continued)

		<i>Group</i>		<i>University</i>	
	<i>Note</i>	2013	<i>2012</i>	2013	<i>2012</i>
		£000	£000	£000	£000
Deferred capital grants	19	42,102	42,798	40,634	41,257
Endowment Funds					
Expendable	20	2,852	2,560	2,852	2,560
Permanent	20	7,204	6,533	5,639	5,229
		<u>10,056</u>	<u>9,093</u>	<u>8,491</u>	<u>7,789</u>
Reserves					
Income & expenditure account excl. pension reserve	22	40,671	36,559	27,804	21,826
Pension reserve	22	(15,208)	(17,685)	(15,131)	(17,560)
		<u>25,463</u>	<u>18,874</u>	<u>12,673</u>	<u>4,266</u>
Income & expenditure account incl. pension reserve					
Restricted funds	21	31	2	-	-
Total Funds		<u>77,652</u>	<u>70,767</u>	<u>61,798</u>	<u>53,312</u>

The Financial Statements on pages 41 to 70 were approved by the University Court on 16 December 2013 and were signed on its behalf by:-



Lord George Penrose
Chairman of Court




Professor Stephen K Chapman
Principal & Chief Accounting Officer

Andrew Menzies
Director of Finance

Consolidated Cash Flow Statement for the year ending 31 July 2013

	<i>Note</i>	2013 £000	2012 £000
Net cash inflow from operating activities	23	12,110	2,980
Returns on investment and servicing of finance	24	(3,327)	(2,191)
Capital expenditure and financial investment	25	(6,064)	(24,407)
Financing	26	9,500	14,500
Increase/(decrease) in cash in the year		<u>12,219</u>	<u>(9,118)</u>

Reconciliation of net cash flow to movement in net debt

	<i>Note</i>	2013 £000	2012 £000
Net debt at 1 August		(26,362)	(2,744)
Increase/(decrease) in cash in the year		12,219	(9,118)
Financing		(9,500)	(14,500)
Change in net funds		<u>2,719</u>	<u>(23,618)</u>
Net debt at 31 July	27	<u>(23,643)</u>	<u>(26,362)</u>

Notes to the Accounts for the year ending 31 July 2013

1. Principal Accounting Policies

FUNDAMENTAL ACCOUNTING CONCEPT

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

BASIS OF PREPARATION

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

BASIS OF ACCOUNTING

The financial statements are prepared in accordance with the historical cost accounting convention with the exception of certain items which are measured at fair value as disclosed in the accounting policies below, and 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 12 and 13, in compliance with FRS 2 'accounting for subsidiary undertakings' and FRS 9 'associates and joint ventures'. The results of subsidiaries acquired or disposed of during the year are included in the group income and expenditure account from the day of acquisition or up to the date of disposal.

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

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

RECOGNITION OF INCOME

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

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

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

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

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

LEASED ASSETS

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

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

REPAIRS AND MAINTENANCE

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred. The group has a planned maintenance programme, which is reviewed on an annual basis.

TAXATION

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

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The subsidiaries, excluding the Edinburgh Business School, pay to the University, under the Gift Aid scheme, amounts as agreed by the directors of each subsidiary company. In certain circumstances Value Added Tax is recoverable, but where this is not possible the cost is included in the relevant expenditure.

RETIREMENT BENEFITS

All new members of staff have the option of joining a pension scheme.

The schemes currently available to new members of staff on Heriot-Watt contracts of employment 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), whereas the Supplementary Pension Scheme (SPS) is closed and contains only pensioner members.

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

The scheme currently available to new members of staff on Edinburgh Business School contracts of employment is the Universities Superannuation Scheme (USS). Existing employees are entitled to maintain their membership of the Lothian Pension Fund (LPF).

None of the group's other subsidiary undertakings operate any other 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.

a) USS

Heriot-Watt participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme wide contribution rate is set. Heriot-Watt is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the year.

b) 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.

c) 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.

d) 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.

In May 2010 the trustees purchased a bulk annuity with Aviva in respect of the benefits for all remaining members of this Scheme. Following this transaction Aviva now hold the assets of the Scheme and are responsible for the payment of the pensions for all members of the Scheme, although the policy is still in the name of the Trustees. The assets and liabilities of this Scheme are therefore deemed to be equal to each other, with expected return on assets and interest cost also assumed to be equal in the future as a result of this transaction. The intention is to wind-up this Scheme, so that responsibility can be officially transferred to Aviva, rather than being in the name of the Trustees. The Trustees believe that this will be completed by December 2013

INTANGIBLE FIXED ASSETS

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

TANGIBLE FIXED ASSETS

a) Land & Buildings

Freehold land is not depreciated.

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

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

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

Costs incurred after the initial purchase are capitalised to the extent that they increase the expected future benefits to the group

from the existing asset beyond its previously assessed standard of performance; the cost of such enhancements being added to the gross carrying amount of the asset concerned.

b) Equipment

Equipment is included in the balance sheet at historical cost. Assets are depreciated on a straight line basis over their estimated useful lives

ACQUISITION WITH THE AID OF SPECIFIC GRANTS

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

INVESTMENTS

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

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

STOCK

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

CASH FLOWS AND LIQUID RESOURCES

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

FOREIGN CURRENCY TRANSLATION

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

RESEARCH GRANTS AND CONTRACTS

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

Expenditure is written off in the year in which it is incurred except for equipment costing more than £20,000 which is capitalised in accordance with the group's capitalisation policy.

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

CHARITABLE DONATIONS*Endowment funds*

All charitable donations received are accounted for as follows:

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

Donations for fixed assets

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

PROVISIONS

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

GIFT AID

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

FINANCIAL INSTRUMENTS

Financial assets

Classification

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

- a) Financial assets at fair value through the income and expenditure account
Financial assets at fair value through the income and expenditure account comprise derivatives. Assets in this category are classified as current assets. The University does not trade in derivatives and does not apply hedge accounting.
- b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date, which are classified as non-current assets. Loans and receivables comprise trade and other receivables and cash at bank and in hand in the balance sheet.
- c) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Recognition and measurement

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

- a) Financial assets at fair value through surplus or deficit
Financial assets carried at fair value are initially recognised at fair value, and transaction costs are expensed in the income and expenditure account. Financial assets carried at fair value are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the income and expenditure account.
- b) Loans and receivables
Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the University will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 90 days overdue) are considered indicators that the loan and receivable is impaired.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance

account, and the amount of the loss is recognised in the income and expenditure account. When a loan or receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in the income and expenditure account.

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

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

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

Financial Liabilities

Classification

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

- a) Financial liabilities at fair value
Financial liabilities at fair value comprise derivatives. Liabilities in this category are classified as current liabilities. The University does not trade in derivatives and does not apply hedge accounting.
- b) Other financial liabilities
Other financial liabilities are included in current liabilities, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current liabilities. The University's other financial liabilities comprise trade and other payables in the balance sheet.

Recognition and measurement

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

- a) Financial liabilities at fair value
Financial liabilities carried at fair value are initially recognised at fair value, and transaction costs are expensed in the income and expenditure account. Financial liabilities carried at fair value are subsequently measured at fair value. Gains or losses arising from changes in the fair value are presented in the income and expenditure account.
- b) Other financial liabilities
Other financial liabilities are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. Funding body grants

	2013	2012
	£000	£000
Recurrent teaching grant	24,234	22,063
Recurrent research grant	12,567	13,484
LTIF grants	-	759
CIF grants	-	572
Release of deferred capital grants	2,409	1,303
Other grants	285	393
	<u>39,495</u>	<u>38,574</u>

3. Tuition fees and education contracts

	2013	2012
	£000	£000
UK Higher education students	13,755	10,379
European Union students (excl. UK)	3,125	3,224
International students	47,435	38,623
Higher education contracts	9,457	10,837
Research training support grants	2,100	1,833 *
Short course fees	409	608
Examination and graduation fees	4,079	3,205
	<u>80,360</u>	<u>68,708</u>

4. Research grants and contracts

	2013	2012
	£000	£000
Research councils	12,805	11,055
Charities	1,194	849
UK government	1,190	841
UK industry	3,795	3,243
EU Commission	3,488	2,626
Other sources	4,480	4,134
	<u>26,952</u>	<u>22,748</u>

5. Other income

	2013	2012
	£000	£000
Residences, catering and conferences	15,881	13,584
Income from governments and other funding bodies	5,097	4,852
Donations	605	541
Release of deferred capital grants	355	398
Other commercial income	3,350	1,856
Other income, including foreign currency gains	2,824	3,874 *
	<u>28,112</u>	<u>25,105</u>

* The 2012 comparative values have been adjusted to reflect £3,981,000 previously reported among Research training support grants (note 3) which is more appropriately reported as other income (note 5).

6. Endowment and investment income

	2013	2012
	£000	£000
Income from specific endowment assets	364	241
Other interest receivable	230	271
	<u>594</u>	<u>512</u>

7. Staff costs

	2013	2012
	£000	£000
Wages and salaries	64,582	60,122
Voluntary severance	413	485
Social security costs	5,115	4,796
Other pension costs	12,847	11,733
	<u>82,957</u>	<u>77,136</u>

	2013	2012
	£000	£000
Analysed between:		
Academic	42,415	38,842
Academic teaching support services	20,124	18,143
Administrative & central services	12,021	11,613
Premises	4,546	4,941
Catering and residences	3,851	3,597
	<u>82,957</u>	<u>77,136</u>

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

	2013	2012
	Number	Number
Academic	741	663
Academic teaching support services	424	439
Administrative & central services	273	278
Premises	144	148
Catering and residences	133	116
	<u>1,715</u>	<u>1,644</u>

7. Staff costs (continued)

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

	2013	2012
	Number	Number
£70,001 - £80,000	36	34
£80,001 - £90,000	24	22
£90,001 - £100,000	12	8
£100,001 - £110,000	6	6
£110,001 - £120,000	3	5
£120,001 - £130,000	4	3
£130,001 - £140,000	4	2
£140,001 - £150,000	3	2
£150,001 - £160,000	0	0
£160,001 - £170,000	0	1
£200,000 - £210,000	1	0
	<u>93</u>	<u>83</u>

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

	2013	2012
	£000	£000
Salary	183	162
Bonus	20	-
Benefits in kind	7	7
	<u>210</u>	<u>169</u>
Pension contributions	<u>43</u>	<u>38</u>

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

8. Other operating expenses

	2013	2012
	£000	£000
Other operating expenses include:		
¹ External auditor's remuneration – audit	66	58
External auditor's remuneration – non-audit services	37	151
² Internal auditor's remuneration	82	62
Hire of other assets - operating leases – other	235	270

¹Including £46,000 (2012: £40,000) for Heriot-Watt University

²Including £82,000 (2012: £62,000) for Heriot-Watt University

9. Interest and other finance costs

	2013	2012
	£000	£000
Net return on pension assets	323	(122)
On bank loans: repayable within 5 years, by instalments	-	-
On bank loans: repayable wholly or partly in more than 5 years	1,606	1,079
	<u>1,929</u>	<u>957</u>

10. Tangible fixed assets

	<i>Land & Buildings</i>	<i>Equipment</i>	<i>Work In Progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Group Cost				
At 1 August 2012	144,733	42,191	33,098	220,022
Additions	360	1,549	8,311	10,220
Transfers	35,132	2,018	(37,150)	-
Disposals	-	-	-	-
At 31 July 2013	<u>180,225</u>	<u>45,758</u>	<u>4,259</u>	<u>230,242</u>

Depreciation

At 1 August 2012	62,903	28,859	-	91,762
Charge for year	4,490	3,742	-	8,232
Impairment Charge		1,018	784	1,802
Transfers	-	-	-	-
Disposals	-	-	-	-
At 31 July 2013	<u>67,393</u>	<u>33,619</u>	<u>784</u>	<u>101,796</u>

Net Book Value

At 31 July 2013	<u>112,832</u>	<u>12,139</u>	<u>3,475</u>	<u>128,446</u>
At 1 August 2012	<u>81,830</u>	<u>13,332</u>	<u>33,098</u>	<u>128,260</u>

Analysed between:

	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Funded by capital grants	29,615	2,087	897	32,599
Own funded	83,217	10,052	2,578	95,847
At 31 July 2013	<u>112,832</u>	<u>12,139</u>	<u>3,475</u>	<u>128,446</u>

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**.

Included in cost for the group is £3,475,000 (2012: £33,098,000) relating to assets in the course of construction, of which £2,473,000 (2012: £26,653,000) relates to freehold land and buildings and £1,002,000 (2012: £6,445,000) relates to equipment.

10. Tangible fixed assets (continued)

	<i>Land & Buildings</i>	<i>Equipment</i>	<i>Work In Progress</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
University				
Cost				
At 1 August 2012	138,288	41,271	31,971	211,530
Additions	104	1,405	8,060	9,569
Transfers	35,132	2,018	(37,150)	-
Disposals	-	-	-	-
At 31 July 2013	<u>173,524</u>	<u>44,694</u>	<u>2,881</u>	<u>221,099</u>
Depreciation				
At 1 August 2012	61,503	28,234	-	89,737
Charge for year	4,260	3,640	-	7,900
Impairment Charge	-	1,018	751	1,769
Transfers	-	-	-	-
Disposals	-	-	-	-
At 31 July 2013	<u>65,763</u>	<u>32,892</u>	<u>751</u>	<u>99,406</u>
Net Book Value				
At 31 July 2013	<u>107,761</u>	<u>11,802</u>	<u>2,130</u>	<u>121,693</u>
At 1 August 2012	<u>76,785</u>	<u>13,037</u>	<u>31,971</u>	<u>121,793</u>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Funded by capital grants	29,615	2,087	897	32,599
Own funded	78,146	9,715	1,233	89,094
At 31 July 2013	<u>107,761</u>	<u>11,802</u>	<u>2,130</u>	<u>121,693</u>

The net book value of the University's tangible fixed assets funded by capital grants includes £3,292,000 (2012: £5,911,000) in cash received for assets either under construction or in the course of being purchased as at the year-end date.

Included in cost for the University is £2,129,000 (2012: £31,971,000) relating to assets in the course of construction, of which £1,316,000 (2012: £25,526,000) relates to freehold land and buildings and £813,000 (2012: £6,445,000) relates to equipment.

11. Intangible fixed assets

	<i>Royalties</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>
Cost		
At 1 August 2012	200	200
Additions	-	-
Disposals	-	-
At 31 July 2013	<u>200</u>	<u>200</u>
Amortisation		
At 1 August 2012	129	129
Charge for year	50	50
At 31 July 2013	<u>179</u>	<u>179</u>
Net Book Value		
At 31 July 2013	<u>21</u>	<u>21</u>
At 1 August 2012	<u>71</u>	<u>71</u>

12. Investments

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Term deposit account (3yrs)	5,000	5,000	-	-
Term deposit account (1yr)	-	2,000	-	-
Investment in subsidiary companies at cost	-	-	11,159	9,163
Minority investments in unquoted companies	45	45	45	45
	<u>5,045</u>	<u>7,045</u>	<u>11,204</u>	<u>9,208</u>

Minority investments in unquoted companies include investments made by the group in spin-out companies, which are stated at cost. The University investment in subsidiary companies includes the cost of the investment in Heriot-Watt University Malaysia Sdn Bhd

13. Subsidiary undertakings

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

	Number of shares	Percentage owned
Edinburgh Business School (Limited by Guarantee)	-	100%
¹ Edinburgh Conference Centre Limited	100	100%
¹ Heriot-Watt Services Limited	100	100%
Heriot-Watt Sports Village Limited	5,000,100	100%
Heriot-Watt Trading Limited	2,000,000	100%
¹ Scottish College of Textiles Limited	6	100%
² SISTech Limited	1000	50%

The group also has a majority shareholding in the following overseas business:

	Number of shares	Percentage owned
Heriot-Watt University Malaysia Sdn Bhd	20,000,000	100%

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

¹These companies are dormant.

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

14. Endowment assets

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Balance at 1 August	9,093	8,664	7,789	7,351
(Decrease) in cash balances held	(1,208)	(819)	(1,208)	(819)
Appreciation of endowment asset investments	2,171	1,248	1,910	1,257
Balance at 31 July	<u>10,056</u>	<u>9,093</u>	<u>8,491</u>	<u>7,789</u>
Represented by:				
Equities (listed)	9,098	6,926	7,533	5,622
Cash balances	958	2,167	958	2,167
	<u>10,056</u>	<u>9,093</u>	<u>8,491</u>	<u>7,789</u>

15. Debtors

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	12,445	10,576	9,311	7,635
Research debtors	10,249	9,356	10,246	9,356
Other debtors	-	47	-	47
Loans by parent undertakings	-	-	-	3,239
Amounts owed by group undertakings	-	-	9,187	5,822
Prepayments and accrued income	7,668	7,010	6,085	5,658
	<u>30,362</u>	<u>26,989</u>	<u>34,829</u>	<u>31,757</u>
Amounts falling due after more than one year:				
Prepayments and accrued income	3,258	3,529	3,258	3,529
	<u>33,620</u>	<u>30,518</u>	<u>38,087</u>	<u>35,286</u>

Included in prepayments and accrued income is £3,258,000 (2012: £3,529,000) due after more than one year which constitutes deemed consideration received by Heriot-Watt University from Borders College for the sale of its Galashiels site to the College in return for 17.5 years rent-free occupation of part of the site, commencing from the 1st February 2008, the practical completion date for the redevelopment of the site.

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Trade debt provision				
At 1 August	1,868	1,780	1,801	1,726
Provided for during the year	743	479	643	452
Utilised during the year	(520)	(391)	(520)	(377)
At 31 July	<u>2,091</u>	<u>1,868</u>	<u>1,924</u>	<u>1,801</u>

At 31st July 2013 debtors with a carrying value of £7,289,000 (2012: £5,780,000) were impaired and provided for. The aging of these debtors is as follows:

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Less than 3 months past due	-	-	-	-
Between 3 to 6 months past due	131	-	-	-
Over 6 months past due	7,158	5,780	6,680	5,552
	<u>7,289</u>	<u>5,780</u>	<u>6,680</u>	<u>5,552</u>

The debtors assessed as individually impaired comprises student and commercial customers of £4,067,000 (2012: £4,576,000) and research customers of £3,222,000 (2012: £1,204,000) with whom it is judged there is an increased risk of default due to the age of the individual debts concerned.

15. Debtors (continued)

Debtors that are less than three months past their due date, except those specifically provided for, are not considered impaired. As at 31 July 2013 debtors with a carrying value of £3,534,000 (2012: £1,204,000) were past their due date but not impaired. The ageing of debtors which are past their due date but not impaired is as follows:

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Less than 3 months past due	3,534	1,274	2,618	735
Between 3 to 6 months past due	-	-	-	-
Over 6 months past due	-	-	-	-
	<u>3,534</u>	<u>1,274</u>	<u>2,618</u>	<u>735</u>

The debtors assessed as past due but not impaired primarily relate to balances due from student and commercial customers of £2,618,000 (2012: £1,174,000) and research customers of £983,000 (2012: £100,000) with which there is no history of default recently.

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

16. Creditors: amounts falling due within one year

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Bank loans	5,000	-	5,000	-
Amounts owed to subsidiary undertakings	-	-	6,558	6,636
Grants in advance for research	20,249	19,859	20,248	19,859
Grants in advance from SFC	5,670	6,670	5,670	6,670
Other creditors	-	606	22	420
Trade creditors	2,998	2,599	2,794	2,223
Other taxation and social security	3,000	463	3,134	2,080
Accruals and deferred income	23,562	24,280	19,948	18,953
	<u>60,479</u>	<u>54,477</u>	<u>63,374</u>	<u>56,841</u>

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

17. Creditors: amounts falling due after more than one year

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Bank loans	45,000	40,500	45,000	40,500
Deferred income	4,566	4,941	3,257	3,536
Amounts owed to subsidiary undertakings	-	-	5,000	5,000
Other creditors	129	181	129	129
	<u>49,695</u>	<u>45,622</u>	<u>53,386</u>	<u>49,165</u>
The above loans are repayable as follows:				
In one year or less (note 16)	-	-	-	-
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
In five years or more	45,000	40,500	45,000	40,500
	<u>45,000</u>	<u>40,500</u>	<u>45,000</u>	<u>40,500</u>
	<u>45,000</u>	<u>40,500</u>	<u>45,000</u>	<u>40,500</u>

The University has in place a committed revolving credit facility against which drawings of £25m (2012: £20m) had been made. Of this, £20m is regarded as representing a balance falling due after more than one year and is matched by long-term fixed rate interest swaps which mature between 2016 and 2037 at rates of between 5.05% and 5.62%. The University also has a £25m loan facility with Clydesdale Bank which was fully drawn down at 31 July 2013. £12.5m of this loan is matched by an interest rate swap which matures in 2023 at a rate of 3.5875%.

18. Provisions for liabilities and charges

	<i>Group and University</i>	
	<i>Pensions</i>	<i>Total</i>
	£000	£000
At 1 August 2012	581	581
Provided for during the year	(20)	(20)
Utilised during the year	(35)	(35)
At 31 July 2013	<u>526</u>	<u>526</u>
To be spent before 31 July 2013	<u>35</u>	<u>35</u>

19. Deferred capital grants

	<i>Funding Council</i>	<i>Other Grants</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Group			
At 1 August 2012			
Buildings	27,206	10,490	37,696
Equipment	2,295	2,807	5,102
Reallocation	2,073	(2,073)	-
Total	<u>31,574</u>	<u>11,224</u>	<u>42,798</u>
Cash Received			
Buildings	2,478	-	2,478
Equipment	21	-	21
Total	<u>2,499</u>	<u>-</u>	<u>2,499</u>
Released to Income and Expenditure			
Buildings	(1,459)	(347)	(1,806)
Equipment	(955)	(434)	(1,389)
Total	<u>(2,414)</u>	<u>(781)</u>	<u>(3,195)</u>
At 31 July 2013			
Buildings	27,753	10,428	38,181
Equipment	3,906	15	3,921
Total	<u>31,659</u>	<u>10,443</u>	<u>42,102</u>

Cash received of £3,292,000 (2012: £5,911,000) 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 yearend date and so had not been capitalised.

	<i>Funding Council</i>	<i>Other Grants</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
University			
At 1 August 2012			
Buildings	27,115	9,079	36,194
Equipment	2,294	2,769	5,063
Reallocation	2,073	(2,073)	-
Total	<u>31,482</u>	<u>9,775</u>	<u>41,257</u>
Cash Received			
Buildings	2,478	-	2,478
Equipment	21	-	21
Total	<u>2,499</u>	<u>-</u>	<u>2,499</u>
Released to Income and Expenditure			
Buildings	(1,428)	(328)	(1,756)
Equipment	(943)	(423)	(1,366)
Total	<u>(2,371)</u>	<u>(751)</u>	<u>(3,122)</u>
At 31 July 2013			
Buildings	27,704	9,024	36,728
Equipment	3,906	-	3,906
Total	<u>31,610</u>	<u>9,024</u>	<u>40,634</u>

20. Endowments

	<i>Restricted Expendable</i>	<i>Group Restricted Permanent</i>	<i>Total</i>	<i>Restricted Expendable</i>	<i>University Restricted Permanent</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2012	2,560	6,533	9,093	2,560	5,229	7,789
Additions	447	2	449	447	2	449
Appreciation	1,193	978	2,171	1,193	717	1,910
Income for year	75	289	364	75	217	292
Expenditure for the year	(1,423)	(598)	(2,021)	(1,423)	(526)	(1,949)
At 31 July 2013	<u>2,852</u>	<u>7,204</u>	<u>10,056</u>	<u>2,852</u>	<u>5,639</u>	<u>8,491</u>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2011	2,389	6,275	8,664	2,389	4,962	7,351
Additions	435	22	457	435	22	457
Appreciation	(31)	1,279	1,248	(31)	1,287	1,256
Income for year	39	202	241	39	136	175
Expenditure for the year	(272)	(1,245)	(1,517)	(272)	(1,178)	(1,450)
At 31 July 2012	<u>2,560</u>	<u>6,533</u>	<u>9,093</u>	<u>2,560</u>	<u>5,229</u>	<u>7,789</u>

21. Restricted funds

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	<i>£000</i>	£000	<i>£000</i>
Balance at 1 August	2	-	-	-
Additions	421	2	-	-
Expenditure in the year	(392)	-	-	-
Balance at 31 July	<u>31</u>	<u>2</u>	<u>-</u>	<u>-</u>

22. Income and expenditure account including pension reserve

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Balance at 1 August	18,874	18,942	4,266	5,297
Net surplus retained for the year	4,226	6,389	6,076	5,345
Transfer (to)/from reserves	2,363	(6,457)	2,331	(6,376)
Balance at 31 July	<u>25,463</u>	<u>18,874</u>	<u>12,673</u>	<u>4,266</u>

	<i>Group</i>	
	2013	2012
	£000	£000
The net surplus retained for the year is analysed as follows:		
University surplus	4,440	3,853
Gift Aid from subsidiaries	1,636	1,489
Surplus retained by subsidiaries	(1,850)	1,047
	<u>4,226</u>	<u>6,389</u>

Reconciliation:	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Income and expenditure reserve	40,671	36,559	27,804	21,826
Pension reserve	(15,208)	(17,685)	(15,131)	(17,560)
Balance at 31 July	<u>25,463</u>	<u>18,874</u>	<u>12,673</u>	<u>4,266</u>

Represented by:

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Income and expenditure account				
At 1 August	36,559	30,791	21,826	17,067
Surplus for the year	4,226	6,389	6,076	5,345
Transfer to pension reserve	(114)	(621)	(98)	(586)
At 31 July	<u>40,671</u>	<u>36,559</u>	<u>27,804</u>	<u>21,826</u>

	<i>Group</i>		<i>University</i>	
	2013	2012	2013	2012
	£000	£000	£000	£000
Pension Reserve				
Deficit at 1 August	(17,685)	(11,849)	(17,560)	(11,770)
Current service cost	(2,470)	(2,277)	(2,410)	(2,225)
Employer contributions	2,949	2,869	2,877	2,794
Contributions in respect of unfunded benefits	14	14	14	14
Curtailments and settlements	-	(82)	-	(82)
Past service cost	(60)	(37)	(60)	(37)
Net return on assets	(319)	134	(323)	122
Actuarial (losses)/gains	2,363	(6,457)	2,331	(6,376)
Deficit at 31 July	<u>(15,208)</u>	<u>(17,685)</u>	<u>(15,131)</u>	<u>(17,560)</u>

23. Reconciliation of surplus before tax to net cash inflow from operating activities

	<i>Group</i>	
	2013	2012
	£000	£000
Income & expenditure		
Surplus on continuing operations after depreciation & disposal of assets and taxation	2,569	5,114
Restricted funds	-	(2)
Interest receivable	(230)	(271)
Interest payable	1,929	957
Taxation	-	229
	<u>4,268</u>	<u>6,027</u>
Fixed assets & deferred capital grants		
Depreciation and impairment of tangible fixed assets	10,034	7,425
Profit on disposal of tangible fixed assets	-	(25)
Amortisation of intangible fixed assets	50	50
Deferred capital grants released to income	(3,195)	(3,869)
Transfer from deferred capital grants to creditors	(2,619)	(1,221)
	<u>4,270</u>	<u>2,360</u>
Endowments & pensions		
Transfer from accumulated income to specific endowments	1,657	1,277
Transfer from accumulated income to restricted funds	(29)	(2)
Pension income	(114)	(621)
	<u>1,514</u>	<u>654</u>
Working capital		
(Increase) in fixed asset investments	-	(5,000)
Decrease/(Increase) in short term investments	2,000	(2,000)
(Decrease)/Increase in stocks	(8)	77
(Increase)/decrease in debtors	(3,102)	(4,173)
Increase in creditors	3,194	5,051
(Decrease) in provisions	(55)	(18)
	<u>2,029</u>	<u>(6,063)</u>
Reserves		
Increase in restricted funds	<u>29</u>	<u>2</u>
Net Cash Inflow from Operating Activities	<u><u>12,110</u></u>	<u><u>2,980</u></u>

24. Returns on investment and servicing of finance

	<i>Group</i>	
	2013	2012
	£000	£000
Income received on specific endowments	364	241
Expenditure paid on specific endowments	(2,021)	(1,517)
Interest received	230	271
Income received on restricted funds	421	-
Expenditure paid on restricted funds	(392)	-
Interest paid	(1,929)	(957)
Taxation paid	-	(229)
Net Cash Outflow from Returns on Investment and Servicing of Finance	<u>(3,327)</u>	<u>(2,191)</u>

25. Capital expenditure and financial investment

	<i>Group</i>	
	2013	2012
	£000	£000
Purchase of tangible fixed assets	(10,220)	(31,244)
Proceeds on disposal of tangible fixed assets	-	25
Increase/(decrease) in endowment cash balances	1,208	819
Deferred capital grants received	2,499	5,536
Endowments received	449	457
Net Cash Outflow from Capital Expenditure and Financial Investment	<u>(6,064)</u>	<u>(24,407)</u>

26. Financing

	<i>Group</i>	
	2013	2012
	£000	£000
New amounts drawn down	9,500	20,500
Repayment of amounts borrowed	-	(6,000)
Net Cash Inflow from Financing	<u>9,500</u>	<u>14,500</u>

27. Analysis of changes in net (debt)/funds

	At 1 August 2012	Cash Flows	Non-cash Changes	At 31 July 2013
	£000	£000	£000	£000
Cash at bank and in hand	14,138	12,219	-	26,357
	<u>14,138</u>	<u>12,219</u>	<u>-</u>	<u>26,357</u>
Debts due within one year	-	-	-	-
Debts due after one year	(40,500)	(9,500)	-	(50,000)
	<u>(26,362)</u>	<u>2,719</u>	<u>-</u>	<u>(23,643)</u>

Had the cash held under endowment asset investments been included above, the net debt movement would have been £1,511,000 (2012: net debt movement £24,436,000) with net debt at 31 July 2013 of £22,685,000 (2012: net debt £24,195,000). However, to reflect more accurately the restricted nature of the cash held for endowments the group considers the exclusion of this cash from the above figures gives a fairer view of the group's net debt.

28. Pension schemes

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £12,847,000 (2012 - £11,733,000).

	<i>Group</i>	
	2013	2012
	£000	£000
The total pension charge is analysed as follows:		
Universities Superannuation Scheme	9,891	9,180
Lothian Pension Fund	2,900	2,467
Scottish Teachers Superannuation Scheme	56	86
Supplementary Pension Scheme	-	-
	<u>12,847</u>	<u>11,733</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 March 2012, of the Scottish Teachers Superannuation Scheme on 31 March 2005 and of the Supplementary Pension Scheme (SPS) on 31 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 contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. and was carried out using the projected unit method.

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

The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

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

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

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65 per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation, then 2.6% per annum thereafter.

The standard mortality tables were used as follows:

Male members' mortality	SINA ("light") year of birth tables. No age rating
Female members' mortality	SINA ("light") year of birth tables adjusted down for one year

The use of these mortality tables reasonably reflects the actual USS experience, but also provides an element of conservatism to allow for further improvements in mortality rates. The CMI 2009 projections with a 1.25% pa long term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males currently aged 65	23.7 years	Females currently aged 65	25.6 years
Males currently aged 45	25.5 years	Females currently aged 45	27.6 years

At the valuation date, the value of the assets of the scheme was £32,433m and the value of the scheme's technical provisions was £35,343m, indicating a shortfall of £2,910m. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

- On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts), the funding level was approximately 68%.
- Under the Pension Protection Fund regulations, introduced by the Pensions Act 2004, the Scheme was 93% funded.
- On a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company
- Using FRS 17, as if USS was a single employer scheme, and using an AA bond discount rate of 5.5% per annum, based on spot yields, the actuary estimated that the funding level was 82%.

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

The technical provisions relate, essentially, to the past service liabilities and funding levels, but it is also necessary to assess the on-going cost of newly accruing benefits.

The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very

28. Pension schemes (continued)

variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has also been included, on account of the variability mentioned above.

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

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Price index measure of inflation. Historically, these increases had been based on the Retail Price Index.

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

New Entrants

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

Normal pension age

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

Flexible Retirement

Flexible retirement options were introduced.

Member contributions increased

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

Cost sharing

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

Pension increase cap

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

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a spot yields basis at that date was approximately 55%

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

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

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the sponsoring employers would be willing and able to make, the trustee consider it necessary and appropriate to take on a degree of investment risk relative to liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns. The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the on-going flow of new entrants into the scheme and the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer term view of its investments. Short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficit persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together, in an integrated form, the various funding strand of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pension Regulator

At 31 March 2013, USS had over 148,000 active members. The University had a total of 1,091 active members as at 31 July 2013.

The total contribution made for the year ended 31 July 2013 was £10,164,000 (2012: £9,402,000), of which employer's contributions totalled £6,945,000 (2012: £6,461,000) and employee's contributions totalled £3,219,000 (2012: £2,941,000).

The employer's contributions include £148,280 (2012: £89,839) of outstanding contributions at the balance sheet date.

28. Pension schemes (continued)

LOTHIAN PENSION FUND

A full actuarial valuation was carried out at 31 March 2011 by a qualified independent actuary.

The major assumptions used by the actuary were:

	2013	2012
Price increases	2.8%	2.1%
Salary increases	5.1%	4.5%
Pension increases	2.8%	2.1%
Discount rate	4.6%	4.3%

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

	<i>Long term rate of return</i>	<i>Assets at 31 July 2013</i>	<i>Long term rate of return</i>	<i>Assets at 31 July 2012</i>
	% p.a.	£000	% p.a.	£000
Equities	6.4%	59,248	5.5%	47,308
Bonds	3.8%	5,184	2.9%	5,529
Property	4.6%	5,925	3.7%	6,758
Cash	3.4%	3,703	2.8%	1,843
Total		<u>74,060</u>		<u>61,438</u>

The following amounts represent Heriot-Watt University's share of the scheme at 31 July 2013 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2013	2012
	£000	£000
At 1 August	61,438	62,010
Expected return on assets	3,094	4,063
Contributions by members	679	682
Contributions by employer	2,963	2,883
Benefits paid	(2,704)	(2,531)
Actuarial (losses)/gains	8,590	(5,669)
At 31 July	<u>74,060</u>	<u>61,438</u>

Reconciliation of present value of liabilities

	2013	2012
	£000	£000
At 1 August	(79,123)	(73,859)
Current service cost	(2,470)	(2,277)
Interest cost	(3,413)	(3,929)
Contributions by members	(679)	(682)
Curtailements and settlements	-	(82)
Past service losses	(60)	(37)
Benefits paid	2,704	2,531
Actuarial (losses)/gains	(6,227)	(788)
At 31 July	<u>(89,268)</u>	<u>(79,123)</u>
Net pension liability	<u>(15,208)</u>	<u>(17,685)</u>

28. Pension schemes (continued)

Analysis Of Amount Charged To Operating Profit

	2013	2012
	£000	£000
Amount charged to operating profit		
Service cost	2,470	2,277
Past service (losses)	(60)	(37)
Total Operating Charge	<u>2,410</u>	<u>2,240</u>

Analysis Of Amount Credited To Other Finance Income

	2013	2012
	£000	£000
Expected return on employer assets	3,094	4,063
Interest on pension scheme liabilities	(3,413)	(3,929)
Net Return	<u>(319)</u>	<u>134</u>

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

	2013	2012
	£000	£000
Actual return less expected return on pension scheme assets	8,590	(5,669)
Experience (losses)/gains arising on the scheme liabilities	(6,227)	(788)
Actuarial gain in pension plan	<u>2,363</u>	<u>(6,457)</u>
Actuarial gain recognised in STRGL	<u>2,363</u>	<u>(6,457)</u>

Movement In Deficit During The Year

	2013	2012
	£000	£000
Deficit at start of the year	(17,685)	(11,849)
Current service cost	(2,470)	(2,277)
Employer contributions	2,949	2,869
Contributions in respect of unfunded benefits	14	14
Curtailments and settlements	-	(82)
Past service losses	(60)	(37)
Net return on pension assets	(319)	134
Actuarial (losses)/gains	<u>2,363</u>	<u>(6,457)</u>
Deficit at end of the year	<u>(15,208)</u>	<u>(17,685)</u>

History Of Experience Gains And Losses

	2013	2012
	£000	£000
Difference between expected and actual return on assets	8,590	(5,669)
Value of assets	74,060	61,438
Percentage of assets	11.6%	(9.2%)
Experience (losses) / gains on liabilities	(6,277)	(788)
Total present value of liabilities	89,268	79,123
Percentage of the total present value of liabilities	(7%)	(1.0%)
Actuarial (loss) / gain recognised in STRGL	2,363	(6,457)
Total present value of liabilities	89,268	79,123
Percentage of the total present value of liabilities	2.6%	(8.2%)

The total contribution made for the year ended 31 July 2013 was £3,575,000 (2012: £3,719,000), of which employer's contributions totalled £2,900,000 (2012: £2,996,000) and employee's contributions totalled £675,000 (2012: £723,000). The agreed contribution rates for future years are 26 % (2012: 25.9%) for employers and 6.4% average (2010: 6.4%) for employees. The employer's contributions include £338,102 (2012: £287,000) of outstanding contributions at the balance sheet date.

28. Pension schemes (continued)

SCOTTISH TEACHERS SUPERANNUATION SCHEME

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

The 2005 actuarial valuation date was carried out using an approach known as 'superannuation contributions adjusted for past experience' (SCAPE). Using SCAPE, with effect from 1 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 March 2005, the balance in the account at that date shall be such that the value of the scheme's assets equals the value of the scheme's liabilities.

The results of this valuation were rolled forward to give a liability of £24.37m at 31 March 2010.

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

	Valuation
Real rate of return (discount rate)	4.6%
Real rate of return in excess of prices	1.8%
Real rate of return in excess of earnings	0.3%
Mortality for new members	PA92 tables rated down 2 years for males and 1 years for females
Mortality for existing & deferred members	PA92 tables rated down 1.5 years for males and 0.5 years for females
Mortality for existing pensioners	PMA 92 tables rated down 1 year for males

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

The total contribution made for the year ended 31 July 2013 was £88,000 (2012: £126,000), of which employer's contributions totalled £56,000 (2012: £86,000) and employee's contributions totalled £32,000 (2012: £40,000). The agreed contribution rates for future years are 14.9% (2012: 14.9%) for employers and 9.2% average (2012: 6.4%) for employees. The employer's contributions include £5,315 (2012: £10,000) of outstanding contributions at the balance sheet date.

HWU SUPPLEMENTARY PENSION SCHEME

In May 2010, members were informed of the impending purchase of 'buy-in' annuities by an insurance company, with a date confirmed in June and the insurance company taking over pension payments in August 2010.

However, change in Government legislation, linking pension increases to CPI, during the 'buy-in' phase caused a delay in completing the 'buy-in' process. This was resolved in January 2012, and the scheme actuaries confirmed that the insurance company were now in a position to produce a revised final premium which could reflect CPI increases. The actuaries confirmed arrangements with the Scheme Trustees in February 2012. The Trustees confirmed their agreement to the 'buy in' at that time.

At the date of these Accounts, the actuaries have notified the Regulator that we have commenced wind up of the scheme with completion by 31 Dec 2013. The Regulators have confirmed that a valuation of the scheme is no longer required given the stage that the scheme is at.

AUTOMATIC ENROLMENT

The Group has implemented arrangements to facilitate pension 'auto enrolment'. The requirement is for employers to automatically enrol certain workers who are not already pension scheme members into a qualifying pension scheme came into force on 1 October 2012. All employers in the UK were allocated a date from which the auto enrolment requirements and arrangements would first apply, referred to as the employer's 'staging date'. The staging date for Heriot Watt University was 1 July 2013.

At this date, 191 qualifying employees were enrolled into qualifying pension schemes. Once enrolled, employees are entitled to 'opt out'. 46 employees took this option and were removed from qualifying pension schemes in August 2013. The employer's costs for July 2013 were £73,874, which subsequently reduced to £53,955 as a result of employees exercising their right to opt out.

In terms of qualifying pension schemes, in addition to the existing pensions schemes (University Superannuation Scheme and the Lothian Pension Fund), staff can opt to join NEST (the National Employment Savings Trust).

29. Post Balance Sheet Events

There are no material post Balance Sheet events.

30. Capital Commitments

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

	<i>Group</i>	
	2013	2012
	£000	£000
Commitments contracted	3,591	3,308
Authorised but not contracted	1,116	4,742
	<u>4,707</u>	<u>8,050</u>

31. Financial commitments

At 31 July 2013 there were annual commitments under non-cancellable operating leases as follows:

	<i>Group</i>	
	2013	2012
	£000	£000
Other:		
Expiring within one year	136	313
Expiring between two to five years inclusive	128	315
Expiring in over five years	-	-
	<u>264</u>	<u>628</u>

32. Contingent Liability

There are no material contingent liabilities.

33. Related Party Transactions

There are no material related party transactions.

34. Access Funds

	<i>Childcare</i>	<i>Group Hardship</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 August 2012	-	-	-
Funding Council grants	105	379	484
Disbursed to students	(26)	(345)	(371)
Vired between funds	(25)	25	-
Balance unspent at 31 July 2013	<u>54</u>	<u>59</u>	<u>113</u>
Repayable to funding body	<u>54</u>	<u>59</u>	<u>113</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.

35. Financial Instruments

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

- Liquidity risk
- Credit risk
- Market risk

LIQUIDITY RISK

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

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

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

The table below details the contractual maturities of financial liabilities.

	<i>Carrying amount</i>	<i>Contractual cash flows</i>	<i>Within one year</i>	<i>After more than one year</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Financial liabilities				
Trade creditors and other payables (less accruals)	37,046	-	36,917	129
Other financial liabilities	50,000	-	5,000	45,000
	<u>87,046</u>	<u>-</u>	<u>41,917</u>	<u>45,129</u>

CREDIT RISK

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

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

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

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

	<i>Carrying Amount</i>	
	2013	2012
	£000	£000
FINANCIAL ASSETS		
Trade debtors and other receivables	22,694	19,978
Cash and cash equivalents	26,357	14,138
	<u>49,051</u>	<u>34,116</u>

MARKET RISK

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

INTEREST RATE RISK

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

- A swap was entered into on 28 June 2002 for £10m at 5.05%, expiring on 30 September 2016 and amortising on a straight line basis from 31 December 2008.
- A swap was entered into on 28 June 2002 for £5m at 5.62%, expiring on 30 September 2016 and amortising on a straight line basis from 31 December 2008.
- A swap was entered into on 5 October 2007 for £5m at 5.03%, rising to £18m on 30 September 2016, expiring on 31 March 2037 and amortising on a straight line basis from 30 September 2014.
- A swap was entered into on 28 March 2013 for £12.5m at 3.5875%, expiring on 31 March 2023 and amortised on a straight line basis from 30 April 2015

35. Financial Instruments continued

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

	Carrying Amount	
	2013	2012
	£000	£000
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	32,500	40,500
	<u>32,500</u>	<u>40,500</u>
	Carrying Amount	
	2013	2012
	£000	£000
Variable rate instruments		
Financial assets	-	-
Financial liabilities	17,500	-
	<u>17,500</u>	<u>-</u>

CURRENCY RISK

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

FAIR VALUES

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

	Carrying amount	Fair value	Carrying amount	Fair value
	2013	2013	2012	2012
	£000	£000	£000	£000
Financial assets held for sale	-	-	-	-
Trade debtors and other receivables	22,694	22,694	19,978	19,978
Cash and cash equivalents	26,357	26,357	14,138	14,138
Trade creditors and other payables	(37,046)	(37,046)	(30,378)	(30,378)
	<u>12,005</u>	<u>12,005</u>	<u>3,738</u>	<u>3,738</u>

ESTIMATION OF FAIR VALUES

The following methods and assumptions were used to estimate fair values:-

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

Members of Court

The following persons served as members of Court during the year to 31 July 2013, and up to the date of approval of these Financial Statements:

Chairman of Court	The Rt Hon Lord George Penrose ¹	P.C., Q.C., M.A., LLB., C.A., LLD (Hon), D.Univ (Hon), FRSE
Principal & Vice-Chancellor	Professor Steve Chapman	FRSE, FRSC, C.Chem
Vice-Principal	Professor Julian D C Jones	OBE, FRSE, FOSA, FInstP, BSc, PhD
City of Edinburgh	Councillor Ricky Henderson ¹	
Senate	Professor Andrew Cairns Dr Stephen Houston Professor James Ritchie Professor Peter Woodward	MA, PhD, FFA BEng, PhD BSc, MSc, CEng, MIMechE, MIET, FHEA BEng, PhD
Staff	Mr Allan Gray Professor David Lane <i>Ms Gill McDonald</i> ⁴ Mr Steve Salvini ⁵	BSc, PhD, FEng, FRSE, FRGS, FIET, FSUT <i>MA, MBA, MCLIP, FHEA</i>
Graduates	Dr Jock Clear ¹ Mr Keith Wallace ¹	BSc, DEng Bsc (Hons), CEng, CDir, FICE, FIHT, FCILT, FRSA
Student Union	Ms Brittany Brown ² <i>Ms Laura Gregson</i> ³ Ms Becky O'Hagan ² <i>Mr Michael Ross</i> ³ Ms Rowan Russell ⁷	BSc BSc
Co-opted	Ms Tracey Ashworth-Davies ^{1, 7} Professor Nicholas Beadle ¹ <i>Professor Ken Gill</i> ^{1, 6} Dr Shonaig Macpherson ¹ Mr Strone Macpherson ¹ <i>Dr Judith McClure</i> ^{1, 6} Mr Iain McLaren ¹ Mr Andrew Milligan ¹ Mr David Robinson ¹ Mr Tony Strachan ¹ Professor Ian Wall ¹	BSc CMG, MBA, LLB BA, PgCE, MBA, FRSA, CPFA, MCIPD, MAAT CBE, DUniv, FRSE, FRSA, CCIPM, LIB MA, MBA CBE, MA, DPhil, FSAScot BA, CA BSc MA, FFA, FRSA MBA, FCIS, MIOd DSc, FRICS, Hon FRIAS, FRSE

¹ Independent Lay Member of Court

² Member from 1 August 2013

³ Member until 31 May 2013

⁴ Member until February 2013

⁵ Member from March 2013

⁶ Member until August 2013

⁷ Member from October 2013

Membership of Committees of Court

AUDIT & RISK COMMITTEE

Mr D G Robinson (Chair)

Mr W Dick
Professor K Gill
Mr B Kay
Mr T Strachan
Mr K Wallace

EMERGENCY COMMITTEE

Lord G Penrose (Chair)

Professor S Chapman
Professor J Jones
Professor D Lane
Dr J McClure
Mr I McLaren
Mr D G Robinson

FINANCE COMMITTEE

Mr I McLaren (Chair)

Professor S Chapman
Professor J Jones
Professor D Lane
Mr A Milligan
Dr J McClure
Lord G Penrose
Professor Ian Wall

GOVERNANCE AND NOMINATIONS COMMITTEE

Lord G Penrose (Chair)

Professor S Chapman
Professor J Jones
Dr Judith McClure
Mr I McLaren
Mr D G Robinson

REMUNERATION COMMITTEE

Lord G Penrose (Chair)

Dr J McClure
Mr I McLaren

STAFF COMMITTEE

Dr J McClure (Chair)

Mr R Bailey
Professor S Chapman
Mr A Gray
Dr S Houston
Professor J Jones
Dr S Macpherson
Lord G Penrose

Court and Committee Attendance Record during the year to 31 July 2013

Name	Dates to/from	Court 7 meetings	Audit & Risk Committee (ARC) 7 meetings	Finance Committee (FC) 5 meetings	Governance & Nominations Committee 3 meetings	Staff Committee (SC) 4 meetings
Professor Nicholas Beadle		6/6				
Professor Andrew Cairns		4/6				
Prof Steve Chapman		6/6		5/5	2/3	4/4
Dr Jock Clear		2/6				
Professor Ken Gill		4/6	2/7			
Mr Allan Gray		5/6				4/4
Ms Laura Gregson	Member until 31 May 2013	3/5*				
Dr Stephen Houston		6/6				4/4
Professor Julian Jones		6/6		5/5	3/3	3/4
Professor David Lane		4/6		2/5		
Dr Shonaig Macpherson		6/6				2/4
Mr Strone Macpherson		4/6				
Dr Judith McClure		5/6		2/5	3/3	4/4
Ms Gill McDonald	Member until Feb 2013	3/3*				
Councillor Ricky Henderson		2/6				
Mr Iain McLaren		3/6		5/5	1/3	
Mr Andrew Milligan		4/6		3/5		
Rt Hon Lord George Penrose		5/6		2/5	1/3	1/4
Prof James Ritchie		5/6				
Mr David G Robinson		6/6	7/7		3/3	
Mr Michael Ross	Member until 31 May 2013	4/5*				
Mr Steve Salvini	Member from March 2013	1/3*				
Mr Tony Strachan		4/6	7/7			
Professor Ian Wall		6/6		4/5		
Mr Keith Wallace		4/6	5/7			
Professor Peter Woodward		6/6				
Mr Will Dick			7/7			
Mr Bob Kay			5/7			
Mr Richard Bailey						4/4

* Indicates total number of meetings held during period of membership

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