HERIOT WATT UNIVERSITY

Reports and Financial Statements

Year ended 31 July 2011

Distinctly Global

www.hw.ac.uk

HERIOT-WATT UNIVERSITY

Reports and Financial Statements

Year Ended 31st July 2011

Registered Number : RC 00216

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

CONTENTS

Strategic Positioning

In a period of unprecedented change in the financial landscape of university funding it is pleasing to note that Heriot-Watt has responded with robust action and is making solid progress towards achieving its strategic goals. 2010-11 was a year in which the University benefited from a range of progressive initiatives. Of note was the establishment of the Scottish Financial Risk Academy, the new Life Sciences Interface Laboratory and the Scottish Academy of Fashion, reinforcing Heriot-Watt's reputation as a pioneering institution.

The University's research grant and contract income grew by 4% to over £21 million during the year and a number of research-leading academic staff were appointed to key positions.

Our strategy to provide an excellent student experience gained considerable momentum during the year through a £34 million investment to build new student residences at both the Edinburgh and Scottish Borders Campuses. These new facilities will be ready for the first student intake in 2012 and will provide new accommodation for over 500 students.

In addition a £35 million investment in an expansion of the Dubai Campus has trebled the size of the facility, allowing us to significantly increase our programme offering and cement Heriot-Watt's position as the university of choice in the United Arab Emirates. The Campus was officially opened by the First Minister of Scotland, Rt Hon Alex Salmond MSP in November 2011.

Heriot-Watt considerably improved its position to 29th out of 120 UK universities in the 2011 National Student Survey, up from 47th last year. The position is based on an overall score averaged over 22 questions, giving a figure of 79 %, up from 76% in 2010. With a response rate of 78% no other university in the UK had a higher rate of participation. Key outcomes of the survey position Heriot-Watt as follows:

- Rated No 1 in the UK for Chemical Engineering
- Rated Second in the UK for Chemistry
- Rated Fourth in the UK for Civil Engineering
- Rated No 1 in Scotland for Psychology and Biology

In addition, the University was awarded Scottish University of the Year 2011-12 by The Sunday Times newspaper, which was impressed by our continued innovation, investment and ambitious plans. In particular they cited Heriot-Watt's educational roots, being guided by the needs of business and industry, and how today, 190 years later, that ethos translates into our high employability rate – 92 per cent of Heriot-Watt graduates are in work or further study within six months of graduation, with three quarters of those going into graduate level jobs.

As Scotland's international university, Heriot-Watt University is making significant progress. Our outreach is strong and our presence widely established throughout the world. Currently, we have over 10,000 learners studying outside the UK; almost half of all Scottish degrees studied abroad are Heriot-Watt degrees. Our first overseas campus is in Dubai, increased its 2011-12 student intake by 50% over the previous year and now has over 2,000 students studying at the campus. The new Campus mentioned above will provide capacity for up to 6,000 students. In November we announced plans to develop a new campus in Malaysia.

The last year has seen dramatic changes in the environment in which universities operate. The new UK Government embarked on a deep cost reduction programme and Government funding for teaching in England was virtually removed and replaced by a competitive market where universities are allowed to charge tuition fees of up to £9,000 pa to students. The Scottish Government announced cuts in the block grant to the Scottish Funding Council (SFC) for 2011-12 and Scottish universities experienced a period of considerable uncertainty over the Government's intentions towards student fees. Following an SNP victory in May 2011, the new majority Government confirmed that it would not allow tuition fees to be charged to Scottish undergraduate students but that universities in Scotland would be allowed to charge tuition fees to students from the 'Rest of UK' (RUK) from 2012-13.

The Scottish Government announced its three year spending review on 22nd September 2011 and underpinned its manifesto commitment to support higher education with a 14% increase in grants to the SFC over the three years to 2014-15. Relative certainty of funding for three years increased beyond expectation plus an ability to compete with RUK universities puts the Scottish university sector in a strong position to develop and to grow research, teaching and commercial links with industry.

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

Mission
The mission of the University is to:
- Create and transfer knowledge
- Enable students and staff to fulfil their potential
- Enrich all the communities with which it engages

Fulfilling our mission is one of the key means by which Heriot-Watt fulfils its value for money obligations to its stakeholders, in particular to the Scottish Funding Council which provides significant public funds.

Strategic Objectives
Heriot-Watt University is a research-led university operating in an environment where the focus on performance is critically important. We wish to be recognised by our stakeholders as a high performing university achieving excellence in teaching and research, with a strong profile in knowledge transfer and exceptional developments in the internationalisation of higher education. Our strategic ambition is still to place Heriot-Watt University at the forefront of research and research-led education in the UK and internationally. We have remained focussed on our strategic objectives:

1. grow our academic base selectively through research-led appointments of the highest quality
2. double the income from international business over seven years
3. enhance the student experience
4. provide effective and efficient services
5. maintain financial sustainability

Resources

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

Campus Locations
- Edinburgh;
- Galashiels (Scottish Borders Campus);
- Orkney;
- Dubai

A new campus is being developed in Malaysia for the University in the new administrative capital of Putrajaya. This is expected to open in 2014.

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

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

Highlights include:
- In December 2010, Court approved the appointment of contractors to build new student residential accommodation in Galashiels and Edinburgh. It is management's intention to deliver the new buildings by August 2012.

- The new campus in Dubai will complete at the end of 2011 and all students and staff should have transferred to the new buildings by January 2012.
- A considerable amount of work to upgrade student facing services continues at the Edinburgh Campus.

Financial
At the year-end the Group had net assets of £69 million (2010: £57 million), an increase of £11.3 million compared with the prior year. Of this improvement £8.1 million came from net assets before pension liability and a further £3.2 million from a reduction in the pension liability itself.

This performance is attributable to a strong operating performance, despite several material charges to the income and expenditure account, especially a voluntary severance scheme.

Further details are set out in the balance sheet on pages 20 to 21.

The Group's £40 million revolving credit facility, agreed in 2007, has provided the group with the stability of having secure funding sources in place during a period of extraordinary turmoil in the financial markets. At the year-end drawings totalling £26 million had been made against this facility (£6 million more than the previous year) and of these, £20 million were protected from financial market volatility by long term interest rate swaps. The lending is at very competitive rates and there is no penalty for the unused portion of the facility

People
We are very positive about the contribution and progress made through staff in the past year, supported and enabled though the People and Organisational Development team.

Significant highlights include:-

- The 2011 staff engagement survey ran in the spring of 2011. Compared to the 2009 survey, there was a significant improvement in the response rate (70%, up from 44%). All benchmark questions scored higher in 2011 demonstrating a high degree of staff engagement generally.
- Embedding the Spirit of Heriot-Watt values demonstrated by 72% of staff identifying with the University's values in the 2011 staff engagement survey and a successful second year of the Spirit of Heriot-Watt awards scheme
- Leadership Development Programme continues and its impact was evaluated in 2011 with 77% of participants confirming they have used the concepts/skills to improve the way they manage/lead.
- The University's career pages were refreshed and relaunched in 2011. The pages include information on reward and benefits, learning and development opportunities, our recruitment process and a section on 'our people' which provides case studies of the diverse roles across the University. Additionally, a Reward Calculator was launched, which promotes our total rewards package to both existing and prospective employees.
- The Pursuing Service Excellence programme continues, focusing on developing staff to enhance the University's student experience and service culture. Twenty two teams are now participating in the programme from across the range of Professional Services staff.
- Successful rollout of PG Certificate in Academic Practice by distance learning to Dubai academic staff.
- Accreditation for modified LEADS (Learning Enhancement and Development Skills programme for postgraduate research students
- Roll out of Research Futures development programme for early career academic staff.

During the year the Secretary of the University conducted a review of the Professional Services across the University and the recommendations of this review are now being implemented. New appointments made in the year, in addition to the new Secretary of the University, included a new Director of Information Systems, a new HR Director and a new Director of Campus Services. Further changes were made to responsibilities for several of the service directorates that will provide a new focus on increasing the efficiency and effectiveness of Heriot-Watt's professional Services.

At the year-end the Group employed 1,611 people (2010: 1,557 people), expressed as full time equivalents, of which 459 were academics (2010: 415 academics). The ratio of academic to total staff is 28.5% (2010: 26.7%).

OPERATING AND FINANCIAL REVIEW

Reputation
Heriot-Watt's reputation for academic achievement is a core intangible asset on which our strategic ambition rests. We are consistently in the top 25 universities in the UK in terms of grants awarded by the Engineering and Physical Sciences Research Council (EPSRC). Following a very successful result in the Research Assessment Exercise 2008, the University was placed 33rd in the key ranking of research intensive universities in the UK. Continued progress in domestic and international league tables is referred to earlier.

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

Risk Management

The Group has a risk management strategy that captures and monitors the main risks facing the Group as it seeks to achieve its strategic plan. This is supported by risk management training to raise awareness of risk and to introduce a consistent way to assess, monitor and manage risk throughout the Schools, institutes and support service departments.

Stakeholder Relationships

A University is a complex organisation with many stakeholders including:
- Students
- Staff
- Court (governing body)
- Government
- Public funding bodies (Scottish Funding Council, Research Councils and others)
- Private and commercial funders
- Business and industry
- Alumni
- The communities with which we engage

Maintaining strong effective relationships with all of them is critical to achieving success.

The further improvement in the University's performance in the National Student Survey in 2011, which is due to university staff throughout the organisation working closely with student representatives to identify and prioritise ways to enhance the student learning and overall experience.

Current Development, Performance and Operation of Group Business

The Group continues to make steady progress in implementing its strategy, which requires a sustained increase in the surplus being generated to provide the necessary funds for future investments, in both major capital projects and new academic staff, which are critical to achieving success. The plan submitted to the Scottish Funding Council in June 2011 is based upon the Group achieving this sustained improvement in its financial performance.

Scope of the financial statements
The financial statements which have been approved by the Court for the year-ended 31st July 2011 consolidate the transactions of the University and its subsidiary undertakings.

Results for the year
The Group reported a surplus of £5.5 million for the year; this represents a decrease of £1.6 million compared to the prior year, though it is £4.7 million better than the budget for the year.

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

OPERATING AND FINANCIAL REVIEW

	2011	Re-stated[2] 2010	2009	2008	2007
	£m	£m	£m	£m	£m
Income	150.3	142.7	134.5	117.8	110.7
Year on year %	*+5.3%*	*+6.1%*	*+14.2%*	*+6.4%*	*+11.3%*
Expenditure	(144.8)	(135.6)	(133.9)	(116.4)	(108.9)
Year on year %	*+6.8%*	*+1.3%*	*+15.0%*	*+6.9%*	*+10.7%*
Net surplus	5.5	7.1	0.6	1.4	1.8
Underlying surplus[1]	4.9	2.3	0.2	0.6	1.0

[1] excluding FRS 17 pension adjustment
[2] being the prior year adjustment required to the Group's pension assets and liabilities to implement the UK Government's announcement in June 2010 that, in future, increases in public sector pension schemes will be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). For further information see note 24

In 2010 - 11 the Group achieved income growth of 5.3% with total income increasing by £7.6 million to £150.3 million, despite an essentially flat grant award from the SFC for the second successive year. Positive income growth was seen across all the group's main income categories, except for Other Income, where a small reduction has been seen due to the non-recurrence of specific one-off sales that took place in 2009-10.

The Group's sources of funding are widely diversified, as set out in notes 2 to 6 on pages 31 and 32, and Heriot-Watt uses the public funds made available from the Scottish Funding Council (SFC) highly efficiently, with its total income being more than three and a half times greater than its core base funding. In 2010-11 the recurrent grants received from the SFC for teaching decreased by 1.5% (2010: increase 1.0%) and for research decreased by 4.2% (2010: 1.8%). The net decrease, for teaching and research combined, being £984k.

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

Geographical Analysis of Income Growth

	2011	*Change*	2010	2009	2008	2007
	£m	*%*	£m	£m	£m	£m
UK and European Union students	12.7	*-3.8%*	13.2	11.6	10.5	9.4
Non-European Union students	32.4	*+21.8%*	26.6	21.5	14.8	13.3

Considerable effort continues to be committed to developing new research proposals. During the year the Group successfully sustained the level of new research awards in excess of the £20 million level it first reached two years ago, in an increasingly competitive environment.

All the Group's active subsidiaries Edinburgh Business School, Heriot-Watt Trading Ltd and Heriot-Watt Sports Village Ltd reported positive results.

Edinburgh Business School reported a surplus of £3,076,000 (2010 re-stated: £817,000) of which £1.3 million was a realised gain on the disposal of listed investments.

Heriot-Watt Trading Ltd reported a profit of £160,000 (2010: £656,000).

Heriot-Watt Sports Village Ltd reported a profit of £9,000 (2010: loss £88,000). Although small this represents a turn around from the loss reported by the company in the prior year and its directors continue to review the business' trading position to further strengthen the underlying financial performance.

OPERATING AND FINANCIAL REVIEW

During 2010-11 the changes initiated in the group structure in the prior year have been completed and in March 2011 an application was made to Companies House to strike off one of the group's dormant companies, Edinburgh Conference Centre Ltd.

			Re-stated			
	2011	*Change*	2010	2009	2008	2007
	£m	*%*	£m	£m	£m	£m
Income	150.3	*+5.3%*	142.7	134.5	117.8	110.7
Staff Costs	75.2	*+13.2%*	66.4	73.4	66.3	62.0
Other Operating Expenses	62.4	*+1.6%*	61.4	50.3	43.0	39.6
Depreciation	6.4	*-9.9%*	7.1	7.5	5.2	5.5
Interest Payable	1.4	*-26.3%*	1.9	1.8	1.9	1.6
Total Expenditure[1]	145.4	*+3.0%*	136.8	133.0	116.4	108.7

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

Staff costs have increased by 13.2% compared to the prior year. However, this change is magnified by a one off reduction in staff costs in 2010, which benefited from a £4.3 million credit due to a change in actuarial assumptions as a consequence of the UK Government's announcement of the change from RPI to CPI for future pension increases.

Excluding this actuarial adjustment staff costs increased by 6.4% compared to the prior year. The group incurred a one-off cost from the voluntary severance scheme of £1,152,000. Adjusting for this and the impact in both years of the FRS 17 adjustments on other pension costs the underlying increase in staff costs year on year is 3.4%. This increase is attributable to an increase in staff numbers, up year on year by the equivalent of 54 full-time persons, and automatic increments in grade. The annual cost of living increase awarded in the year was 0.5%. Further disclosures are shown in note 7 to the financial statements. Interest payable decreased due to a diminution of the negative charge on the return on pension assets, based on FRS 17 actuarial estimates. However, interest payable on the group's bank facilities rose by £103,000, being 8.4%, reflecting the additional funds drawn during the year to fund working capital requirements.

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

Net debt decreased by £4.5 million (2010: £6.2 million) during the year, to £2.7 million (2010: £7.3 million), even though the group made net drawings against its revolving credit facility of £6 million and maintaining previous levels of capital investment. In May this year the Group arranged a £25m development and term loan facility with the Clydesdale Bank to provide long term funding (27 years) for construction of replacement student residences.

Further detail as to the individual elements comprising the Group's cash flow statement can be found in notes 25 to 28 of the notes to the accounts on pages 45 and 46.

The net debt position for the University, before consolidation of the cash balances held by the Edinburgh Business School (which is a separately registered charity), was £17.9 million (2010: £14.9 million).

Unless special terms are agreed, it is group policy to pay invoices at the end of the month following the month in which the invoice is dated. At 31st July 2011 there were 31 days (2010 - 32 days) of purchases in trade creditors. No interest was payable under the terms of the Late Payment of Commercial Debts (Interest) Act 1998.

Capital projects
The gross capital investment of £7.5 million (2010: £7.8 million) was supported by new deferred capital grant receipts of £5.9 million (2010: £2.7 million).

OPERATING AND FINANCIAL REVIEW

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

Key investments during the year included the commencement of the construction of new halls of residence on both the Edinburgh and the Scottish Borders Campuses, as well as the completion of work in the new student administration IT system.

Student Numbers

The Group's student numbers for the current and previous year are set out below, expressed as both total headcount and as full-time equivalents.

Campuses in Scotland

		Headcount			Full time equivalents		
		2011	*% change*	2010	2011	*% change*	2010
Home/EU	Undergraduate	5,002	*-8%*	5,464	4,939	*-9%*	5,426
	Postgraduate	918	*-3%*	944	857	*-1%*	863
		5,920	*-8%*	6,408	5,796	*-8%*	6,289
International	Undergraduate	486	*13%*	432	482	*13%*	428
	Postgraduate	1,180	*15%*	1,022	1,129	*15%*	985
	Total	7,586	*-4%*	7,862	7,407	*-4%*	7,702

Student numbers on campus in Scotland decreased overall by 4% year on year. This is a reflection of the reduction in places being funded by the Scottish Funding Council in 2010-11 for home/EU students. By contrast the Group continued to successfully grow its international student numbers, with full-time equivalents up by over 200 students or 14% (2010: 15%).

Dubai Campus and other Transnational Programmes

	Headcount			Full time equivalents		
	2011	*% change*	2010	2011	*% change*	2010
Undergraduate	4,635	*15%*	4,029	2,875	*33%*	2,161
Postgraduate	11,709	*-3%*	12,076	3,811	*43%*	2,671
Total	16,344	*1%*	16,105	6,686	*38%*	4,832

Overseas, the Group was successful in delivering another year of strong growth at both its Dubai campus and in its other transnational programmes, with full-time equivalent numbers increasing by 38% year on year (2010: 24%).

Total – Worldwide

	Headcount			Full time equivalents		
	2011	*% change*	2010	2011	*% change*	2010
Undergraduate	10,123	*2%*	9,925	8,296	*4%*	8,015
Postgraduate	13,807	*-2%*	14,042	5,797	*28%*	4,519
Total	23,930	*-%*	23,967	14,093	*12%*	12,534

Overall, 2010-11 saw the modest decline in Home/EU student numbers at the Group's Scottish campuses more than offset by continued growth in international education markets, resulting in a 12% year on year increase in full-time equivalents (2010: 15%).

Total – by Geographic Location

		Headcount				Full time equivalents			
		2011	%	2010	%	2011	%	2010	%
In Scotland	Home/EU	5,920	*25%*	6,408	*27%*	5,796	*41%*	6,289	*50%*
In Scotland	International	1,666	*7%*	1,454	*6%*	1,611	*11%*	1,413	*11%*
Overseas	Transnational	16,344	*68%*	16,105	*67%*	6,686	*48%*	4,832	*39%*
Total		23,930	*100%*	23,967	*100%*	14,093	*100%*	12,534	*100%*

Geographically, the importance to the Group of overseas education markets continues to grow, with full-time equivalent students overseas, as shown in the table above.

Year end position of the Group

Net assets excluding the pension liability exceeded £80m at the year end. The pension liability continues to fluctuate by material amounts with a reduction of over £3m since the previous year end. Full details are provided in Note 30.

During the year the Group's net current liabilities decreased by £10.1 million (2010: increased £0.2 million).This decrease is attributable to a number of changes in both the trading element of the Group's working capital and movements in short term cash and debtor balances.

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

- Total trade and research debtors increased by 15.8% year on year, which compares unfavourably with the growth in turnover during the same period of 5.4%.
- Prepayments have risen year on year, as with last year the main reason has been in relation to balances connected to the University's Dubai campus, where continued considerable expansion and growth in the scale of the business meant that prepayments rose by £0.5 million. A number of other prepayments, all individually immaterial, increased by £0.6 million.
- Short-term bank loans increased, with £6 million drawn at the year-end. This represents normal fluctuations within the group's cash flows, with closing short-term borrowings having been £nil and £3 million respectively in each of the two preceding years.
- Grants in advance for research increased by £1.8 million during the year.
- Grants in advance from SFC decreased by £4.4 million as capital projects for which grant funding previously received from the Scottish Funding Council were completed and the related grant funds transferred from short-term liabilities to deferred capital grants.
- Accruals and deferred income increased by £0.8 million. An analysis of the constituent elements comprising this balance shows both material increases and decreases. Notable are the marked decrease in the goods received note accrual, which reduced by £1.1 million (after the one-off peak seen in July 2010) back to a level more consistent with its long-term trend and, conversely, the creation of a £1 million accrual with respect to a voluntary severance scheme.
- The Group operates a net current liability position to optimise its working capital and uses its revolving credit facility to provide liquidity when required. The University continues to experience growth and careful management of flexible credit facilities are an important element to fund this growth.
- The Group complied with all of its bank covenants at the year end and projections in September confirmed that this is also the case for the foreseeable future.

Main trends and factors influencing future performance

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

Academic Profile

- Ability to increase research activity and funding
- Ability to attract and retain high calibre academic staff
- Ability to attract well-qualified fee-paying students from "Rest-of-UK" and indeed the rest of the world
- Ability to capitalise on our Scottish University of the Year accolade

External Factors

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

Corporate Activity to improve financial sustainability

- Implementation of the Strategic Plan
- Continued development of a consistent set of KPIs in line with the Strategic Plan
- Better alignment of debtor and creditor cash cycles to ensure cash to fund future expansion
- Development of new Estate strategy and IT strategy
- Continuing to implement process reviews to identify opportunities to improve our effectiveness and efficiency
- Delivering the efficiency and effectiveness improvements identified by academic performance reviews via the implementation of agreed recovery plans
- Continued focus on strong governance

Employees

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

Student Representation

The Group has had a long and successful track record of involving its students in decision-making which influences the Group's key areas of performance. Students are represented on the Court, several Committees of Court and on each of the main Boards established by the University's Planning and Management Executive, where their input is sought on matters affecting development of the Group strategy. Two-way feedback and consultation is also provided by the Student Experience Forum, which includes student representation and has a broad remit, encompassing many aspects of the student experience at Heriot-Watt. A key output from this body has been agreement on a series of very successful projects to improve the provision of services and the estate infrastructure.

Induction processes for international students have been enhanced. A strategy has been developed relating to students no matter where or how they are studying and strong links have been established between different campuses. To ensure cohesion in overall strategy for provision of services and support to students, the Forum now formally reports to the Learning & Teaching Board.

Donations

No donations in excess of £200 were made during 2010-11 to UK political organisations.

Insurance

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

Pensions

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

Details of the accounting policies are set out in note 1 on pages 23 to 30 and further disclosures are set out in note 30 on pages 47 to 56. 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.

During the year the Group paid total employer contributions of £11.5 million (2010: £11.4 million), details of which are shown in the table below.

	2010-11	*Change*	2009-10	*Change*	2008-09
	£000	*%*	£000	*%*	£000
Employer Contributions					
Universities Superannuation Scheme	8,592	*+6.0%*	8,107	*+2.5%*	7,911
Lothian Pension Fund	2,861	*+1.9%*	2,809	*+10.0%*	2,554
Scottish Teachers Superannuation Scheme	96	*-1.0%*	97	*-8.5%*	106
Supplementary Pension Scheme	-	-	369	*+315%*	89
Total	11,549	*+1.5%*	11,382	*+6.8%*	10,660

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 31st March 2008, in December 2008 and January 2009 respectively.

On the 10th May 2011 the Joint Negotiating Committee of USS agreed changes to the Scheme and the University, as a participating employer is implementing these changes with effect from 1st October 2011. Some of these changes affect current members, but others only impact employees who join the scheme from the implementation date. None of these changes affect those already receiving a pension before the implementation date.

Changes for existing members include an increase to the contribution rate to 7.5%, a higher normal pension age of 65 for future service and a cap to pension increases for service after the implementation date.

For new entrants and re-joiners (unless entitled to rejoin the final salary section) to USS a new section of the scheme where benefits are calculated on service and salary at the end of each year rather than final salary on retirement / leaving and re-valued annually in line with official pensions (subject to a cap). The contribution rate for the new section will be 6.5% of salary.

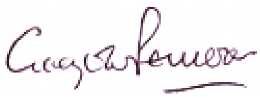
In addition, flexible retirement is to be introduced, cost sharing between members and employers and changes to the early retirement terms from 2013 for those retiring due to redundancy.

OPERATING AND FINANCIAL REVIEW

Minority investments
The Group has had, for a number of years, a policy for the commercialisation of its research base, in some cases through the creation of 'spin-out' companies, in which it retains a minority investment. As at 31st July 2011 there were sixteen investments (2010 - sixteen) in a range of different companies. The market value of these investments is not reflected in the group's financial statements.

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

Prof. Stephen Chapman
Principal & Chief Accounting Officer



Lord George Penrose
Chairman of Court

CORPORATE GOVERNANCE STATEMENT

Introduction

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

During the year the review of the governance arrangements for the Edinburgh Business School were satisfactorily completed and, in the opinion of the Court, the Group complied with the Governance Code of Practice and General Principles and the provisions of the Code provided by the CUC throughout the year ended 31st July 2011. The Court also regularly reviews its governance provisions in line with both recommendations made by SFC and any changes made in the CUC Code.

Governing Body

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

To discharge these responsibilities:

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

The Court has taken reasonable steps to:

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

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

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

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

- An Internal Audit function, which during 2010-11 was contracted out to Scott Moncrieff, whose annual programme was approved by the Audit & Risk Committee and who subsequently report to the Audit and Risk Committee.

- During the year no audit recommendations were made, by either the external or internal auditors, which related to the highest category. The group appointed Ernst & Young as its internal auditors, with effect from 1st August 2011, replacing Scott Moncrieff whose five year term had expired.

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

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

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

Over the last five years the Group has successfully used its approach to risk management to focus its available audit resource to the best effect. Good progress continued to be made during the last year towards the objective of actioning all recommendations on a prioritised and timely basis and the Audit & Risk Committee continues to encourage the Group's management to build on this progress. This is shown in the table below[1].

Year	No. of external audit recommendations	Completed	No. of internal audit recommendations	Completed
2006-07	15	100%	106	99%
2007-08	14	93%	117	100%
2008-09	12	92%	63	86%
2009-10	9	89%	66[2]	65%
2010-11	5	60%	74[2]	7%

[1] The more recent audit recommendations include some where the target completion dates extend beyond the 31st July 2011, hence the lower completion rate for 2010-11.
[2] excludes minor recommendations

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

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

c

We have audited the Group and University financial statements (the ''financial statements'') of Heriot-Watt University for the year ended 31 July 2011 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses, the Statement of Principal Accounting Policies and the related notes. 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, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the University Court those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University Court for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Court and auditor

As explained more fully in the Statement of Responsibilities of the University Court set out on page 14 within the Corporate Governance Statement, the University Court is responsible for the preparation of financial statements which give a true and fair view. 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 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; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Financial Statements to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and University's affairs as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended; and

- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the Statement of Recommended Practice: accounting for further and higher education.

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.

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

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 terms of our engagement requires us to report to you if, in our opinion:

- adequate accounting records have not being kept;
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit

Grant Macrae

Grant Macrae
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Saltire Court
20 Castle Terrace

EH1 2EG
25 NOVEMBER 2011

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31st JULY 2011

	Note	2011 £000	Re-stated 2010 £000
Income			
Funding body grants	2	43,464	43,320
Tuition fees and education contracts	3	64,074	57,024
Research grants and contracts	4	21,217	20,469
Other income	5	19,767	20,794
Endowment and investment income	6	1,837	1,055
Total Income		150,359	142,662
Expenditure			
Staff costs	7	75,213	66,390
Other operating costs	8	62,379	61,386
Depreciation	10	6,366	7,075
Interest and other finance costs	9	1,416	1,963
Total Expenditure		145,374	136,814
Surplus on continuing operations after depreciation of tangible assets and before taxation		4,985	5,848
Gain / (loss) on disposal of assets		15	(212)
Surplus on continuing operations after depreciation and disposal of assets but before taxation		5,000	5,636
Taxation		4	-
Surplus on continuing operations after depreciation and disposal of assets and taxation		5,004	5,636
Deficit for the year transferred from accumulated income in endowment and restricted funds		513	1,441
Net surplus for the year retained within general reserves	23	**5,517**	**7,077**

All transactions are in respect of continuing operations.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDING 31st JULY 2011

	Note	2011 £000	Re-stated 2010 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets and tax		5,517	7,077
Appreciation of endowment asset investments	14	373	815
New endowments	14	1,554	(162)
Actuarial gain / (loss) in respect of pension schemes		2,571	(298)
Total recognised gains relating to the year		**10,015**	**7,432**

Reconciliation

		2011 £000	Re-stated 2010 £000
Opening reserves and endowments		17,591	10,159
Total recognised gains relating to the year		10,015	7,432
Closing reserves and endowments		**27,606**	**17,591**

BALANCE SHEETS
AS AT 31st JULY 2011

	Note	Group 2011 £000	Group 2010 £000	University 2011 £000	University 2010 £000
Fixed Assets					
Tangible assets	*10*	104,441	103,278	98,106	96,835
Intangible assets	*11*	121	171	-	-
Investments	*12*	45	5,478	5,050	9,559
Total Fixed Assets		104,607	108,927	103,156	106,394
Endowment Assets	*14*	8,664	6,737	7,351	5,531
Current Assets					
Stock		84	30	84	27
Debtors	*15*	26,345	22,700	23,969	20,307
Cash at bank and in hand		23,256	12,733	7,755	4,425
		49,685	35,463	31,808	24,759
Less: Creditors - amounts falling due within one year	*16*	(56,303)	(52,225)	(53,850)	(53,762)
Net Current Liabilities		(6,618)	(16,762)	(22,142)	(29,003)
Total Assets less current liabilities		**106,653**	**98,902**	**88,465**	**82,922**
Less: Creditors - amounts falling due after more than one year	*17*	(25,468)	(25,855)	(23,929)	(24,200)
Less: Provisions for liabilities	*18*	(599)	(579)	(599)	(579)
Net Assets excluding pension liability		80,586	72,468	63,937	58,143
Pension liability	*30*	(11,849)	(14,994)	(11,770)	(14,847)
Net Assets including pension liability		**68,737**	**57,474**	**52,167**	**43,296**

BALANCE SHEETS
AS AT 31st JULY 2011

		Group		University	
	Note	*2011*	*2010*	*2011*	*2010*
		£000	*£000*	*£000*	*£000*
Deferred capital grants	*19*	41,131	38,837	39,519	37,154
Endowment Funds					
Expendable	*20*	2,391	2,200	2,391	2,200
Permanent	*20*	6,273	4,537	4,960	3,331
		8,664	6,737	7,351	5,531
Reserves					
Income & expenditure account excl. pension reserve	*23*	30,791	25,848	17,067	15,458
Pension reserve	*23*	(11,849)	(14,994)	(11,770)	(14,847)
Income & expenditure account incl. pension reserve		18,942	10,854	5,297	611
Restricted funds	*21*	-	87	-	-
Investment reserve	*22*	-	959	-	-
Total Funds		**68,737**	**57,474**	**52,167**	**43,296**

The Financial Statements on pages 18 to 60 were approved by the University Court on 14th November 2011 and were signed on its behalf by:-

Lord George Penrose
Chairman of Court

Prof. Stephen Chapman
Principal & Chief Accounting Officer

Phil McNaull
Director of Finance

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDING 31st July 2011

	Note	2011 £000	2010 £000
Net cash inflow from operating activities	25	7,392	14,145
Returns on investment and servicing of finance	26	(1,659)	(4,012)
Capital expenditure and financial investment	27	(1,210)	(3,874)
Financing	28	6,000	(3,000)
Increase in cash in the year		**10,523**	**3,259**

Reconciliation Of Net Cash Flow To Movement In Net Debt

		2011 £000	2010 £000
Increase in cash in the year		10,523	3,259
Financing		(6,000)	3,000
Change in net funds		4,523	6,259
Net debt at 1 August		(7,267)	(13,526)
Net debt at 31 July	29	**(2,744)**	**(7,267)**

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

1. **Principal Accounting Policies**

Fundamental accounting concept

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

Prior year adjustment

In its June 2010 budget the UK government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). In preparing the financial statements for the year ended 31st July 2010, the University considered the Lothian Pension Fund Scheme Rules and associated members' literature and concluded that, as a result, a revised actuarial assumption should be made within the realised gain recognised through the statement of recognised gains and losses (STRGL). At the date of approval of the financial statements (15th November 2011), the Urgent Issues Task Force (UITF) had not concluded its consultation on the accounting treatment of this change. Following publication of the UITF's abstract 48 on 17th December 1010, the University reconsidered the documentation and has concluded that in light of the final UITF abstract, the revisions to inflation measures constituted a change in pension fund members' benefits and the resulting gain should be recognised in the income and expenditure account. This requires a prior year adjustment to reduce other recognised gains and reduce staff costs in the 2009-10 comparatives to these financial statements. The impact of the change is provided in note 24 on page 44.

Basis of preparation

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

Basis of accounting

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

Basis of consolidation

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

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

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

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

Recognition of income

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

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

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

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

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

Leased assets

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

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

Repairs and maintenance

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

Taxation

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

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The subsidiaries, excluding the Edinburgh Business School, 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.

USS

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

LPF

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

STSS

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

SPS

The SPS is a pension scheme providing benefits based on final pensionable pay. The assets and liabilities of the scheme are held separately from those of Heriot-Watt University. Pension scheme assets are measured using market values.
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 31st July 2012.

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

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.

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. Impairment losses recognised in the income and expenditure account on equity instruments are not reversed through the income and expenditure account.

Financial Liabilities

<u>Classification</u>

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

a) Financial liabilities at fair value

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

b) Other financial liabilities

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

Recognition and measurement

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

a) Financial liabilities at fair value

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

b) Other financial liabilities

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

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

2. Funding Body Grants

	Group	
	2011	*2010*
	£000	*£000*
Recurrent teaching grant	24,321	24,696
Recurrent research grant	13,771	14,380
LTIF grants	54	129
CIF grants	2,765	1,224
Release of deferred capital grants	2,039	2,414
Other grants	514	477
	43,464	43,320

3. Tuition Fees and Education Contracts

	Group	
	2011	*2010*
	£000	*£000*
UK Higher education students	9,967	11,206
European Union students (ex. UK)	2,721	2,001
Non European Union students	32,420	26,677
Higher education contracts	10,091	8,945
Research training support grants	5,112	5,086
Short course fees	713	691
Examination and graduation fees	3,050	2,418
	64,074	57,024

4. Research Grants and Contracts

	Group	
	2011	*2010*
	£000	*£000*
Research councils	11,447	11,008
Charities	737	521
UK government	1,454	1,898
UK industry	3,046	3,170
EU Commission	2,061	1,288
Other sources	2,472	2,584
	21,217	20,469

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

5. Other Income

	Group 2011 £000	Group 2010 £000
Residences, catering and conferences	13,635	12,781
Other services rendered	4,232	4,519
Royalties	15	173
Donations	610	805
Release of deferred capital grants	473	491
Other income	802	2,025
	19,767	20,794

6. Endowment and Investment Income

	Group 2011 £000	Group 2010 £000
Income from specific endowment assets	284	195
Other investment income	1,296	739
Other interest receivable	257	121
	1,837	1,055

7. Staff Costs

	Group 2011 £000	Group Re-stated 2010 £000
Wages and salaries	58,592	56,549
Voluntary severance	1,152	-
Social security costs	4,588	4,364
Other pension costs	10,881	5,477
	75,213	66,390

Further information as to the re-statement of other pension costs in the 2010 comparative is provided in note 24 on page 44.

Analysed between:

	Group 2011 £000	Group Re-stated 2010 £000
Academic	29,230	26,518
Academic support	24,766	21,159
Other support	1,572	1,438
Administrative & central services	10,913	9,583
Estates	4,874	4,229
Catering and residences	3,858	3,463
	75,213	66,390

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

Staff Costs (continued)

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

	Number	*Number*
Academic	459	415
Academic support	579	557
Other support	42	39
Administrative & central services	254	255
Estates	141	148
Catering and residences	136	143
	1,611	1,557

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

	2011 Number	*2010 Number*
£70,001 - £80,000	34	38
£80,001 - £90,000	14	8
£90,001 - £100,000	10	11
£100,001 - £110,000	6	9
£110,001 - £120,000	5	6
£120,001 - £130,000	4	2
£130,001 - £140,000	1	1
£140,001 - £150,000	2	2
£150,001 - £160,000	-	-
£160,001 - £170,000	-	1
£170,001 - £180,000	1	-
£180,001 - £190,000	-	-
£190,001 - £200,000	-	1
	77	79

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

	2011 £000	*Prof. A Muscatelli 2010 £000*	*Prof. S Chapman 2010 £000*	*2010 £000*
Salary	162	53	153	206
Benefits in kind	13	3	12	15
	175	56	165	221
Pension contributions	36	6	33	39

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

Costs of £4,666 (2010: £932) were incurred by the Principal during the year in respect of overseas activities carried out in pursuance of the strategy approved by the governing body.

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

8. Other Operating Expenses

		Group 2011 £000	Group 2010 £000
	Other operating expenses include:		
*	External auditors' remuneration - audit	43	48
	External auditors' remuneration – non-audit services	51	30
**	Internal auditors' remuneration	62	62
	(Profit) / loss on disposal of tangible fixed assets	(15)	212
	Hire of other assets - operating leases - other	293	148
	Finance lease charges	-	3

* Inc. £34,000 (2009: £33,000) for Heriot-Watt University

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

9. Interest and Other Finance Costs

	Group 2011 £000	Group 2010 £000
Finance lease interest	-	3
Net return on pension assets	83	730
On bank loans: repayable within 5 years, by instalments	-	-
On bank loans: repayable wholly or partly in more than 5 years	1,333	1,230
	1,416	1,963

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

10. Tangible Fixed Assets

	Land &Buildings	*Equipment*	*Work In Progress*	*Total*
	£000	*£000*	*£000*	*£000*
Group				
Cost				
At 1 August 2010	141,047	35,011	10,717	186,775
Additions	131	3,866	3,537	7,534
Transfers	-	-	-	-
Disposals	-	(5,271)	-	(5,271)
At 31 July 2011	141,178	33,606	14,254	189,038
Depreciation				
At 1 August 2010	55,820	27,677	-	83,497
Charge for year	3,358	3,008	-	6,366
Transfers	44	(44)	-	-
Disposals	-	(5,266)	-	(5,266)
At 31 July 2011	59,222	25,375	-	84,597
Net Book Value				
At 31 July 2011	81,956	8,231	14,254	104,441
At 1 August 2010	85,227	7,334	10,717	103,278

Analysed between:

	£000	*£000*	*£000*	*£000*
Funded by capital grants	36,467	4,664	-	41,131
Own funded	45,489	3,567	14,254	63,310
At 31 July 2011	81,956	8,231	14,254	104,441

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

Included in cost for the group is £14,254,000 (2010: £10,717,000) relating to assets in the course of construction, of which £8,117,000 (2010: £5,948,000) relates to freehold land and buildings and £6,137,000 (2010: £4,769,000) relates to equipment.

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

Tangible Fixed Assets (continued)

	Land & Buildings	Equipment	Work In Progress	Total
	£000	£000	£000	£000
University				
Cost				
At 1 August 2010	134,921	33,904	9,787	178,612
Additions	133	3,864	3,363	7,360
Transfers	-	-	-	-
Disposals	-	(5,005)	-	(5,005)
At 31 July 2011	135,054	32,763	13,150	180,967
Depreciation				
At 1 August 2010	54,785	26,992	-	81,777
Charge for year	3,186	2,898	-	6,084
Transfers	44	(44)	-	-
Disposals	-	(5,000)	-	(5,000)
At 31 July 2011	58,015	24,846	-	82,861
Net Book Value				
At 31 July 2011	77,039	7,917	13,150	98,106
At 1 August 2010	80,136	6,912	9,787	96,835

Analysed between:

	£000	£000	£000	£000
Funded by capital grants	34,914	4,605	-	39,319
Own funded	42,125	3,312	13,150	58,787
At 31 July 2011	77,039	7,917	13,150	98,106

The net book value of the University's tangible fixed assets funded by capital grants includes £7,132,000 (2010: £11,868,000) 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 £13,150,000 (2010: £9,787,000) relating to assets in the course of construction, of which £7,030,000 (2010: £5,018,000) relates to freehold land and buildings and £6,120,000 (2010: £4,769,000) relates to equipment.

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

11. Intangible Fixed Assets

	Group and University	
	Royalties	*Total*
	£000	*£000*
Cost		
At 1 August 2010	200	200
Additions	-	-
Disposals	-	-
At 31 July 2011	200	200
Amortisation		
At 1 August 2010	29	29
Charge for year	50	50
At 31 July 2011	79	79
Net Book Value		
At 31 July 2011	121	121
At 1 August 2010	171	171

12. Investments

	Group		*University*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Listed investments on the London Stock Exchange	-	5,433	-	-
Investment in subsidiary companies at cost	-	-	5,005	9,514
Minority investments in unquoted companies	45	45	45	45
	45	5,478	5,050	9,559

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

13. Subsidiary Undertakings

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

		Number of shares	Percentage owned
	Edinburgh Business School (Limited by Guarantee)	-	100%
1	Heriot-Watt Services Limited	2	100%
	Heriot-Watt Sports Village Limited	5,000,100	100%
	Heriot-Watt Trading Limited	5,000	100%
1	Scottish College of Textiles Limited	6	100%
2	SISTech Limited	250	50%

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

[1] These companies are dormant.

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

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

14. Endowment Assets

	Group		*University*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	6,737	6,084	5,531	5,012
Increase/(decrease) in cash balances held	1,554	(162)	1,554	(162)
Appreciation of endowment asset investments	373	815	266	681
Balance at 31 July	8,664	6,737	7,351	5,531
Represented by:				
Equities (listed)	5,679	5,306	4,366	4,100
Cash balances	2,985	1,431	2,985	1,431
	8,664	6,737	7,351	5,531

15. Debtors

	Group		*University*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Amounts falling due within one year:				
Trade debtors	6,897	5,643	4,704	3,417
Research debtors	9,031	8,116	9,031	8,116
Other debtors	328	-	-	-
Amounts owed by group undertakings	-	-	653	131
Prepayments and accrued income	6,289	4,870	5,781	4,572
	22,545	18,629	20,169	16,236
Amounts falling due after more than one year:				
Prepayments and accrued income	3,800	4,071	3,800	4,071
	26,345	22,700	23,969	20,307

Included in prepayments and accrued income is £3,800,000 (2010: £4,071,000) due after more than one year which constitutes deemed consideration received by Heriot-Watt University from Borders College for the sale of its Galashiels site to the College in return for 17.5 years rent-free occupation of part of the site, commencing from the 1st February 2008, the practical completion date for the redevelopment of the site.

Debtors (continued)

	Group 2011 £000	Group 2010 £000	University 2011 £000	University 2010 £000
Trade debt provision				
At 1 August	1,261	1,261	1,261	1,252
Provided for during the year	1,422	2,085	1,302	2,067
Utilised during the year	(903)	(2,085)	(837)	(2,058)
At 31 July	1,780	1,261	1,726	1,261

At 31st July 2011 debtors with a carrying value of £3,149,000 (2010: £3,010,000) were impaired and provided for. The amount of the provision was £1,780,000 (2010: £1,261,000). The aging of these debtors is as follows:

	Group 2011 £000	Group 2010 £000	University 2011 £000	University 2010 £000
Less than 3 months past due	39	-	39	-
Between 3 to 6 months past due	29	844	29	761
Over 6 months past due	3,081	2,166	2,942	1,967
	3,149	3,010	3,010	2,728

The debtors assessed as individually impaired comprises student and commercial customers of £2,343,000 (2010: £2,719,000) and research customers of £806,000 (2010: £291,000) with whom it is judged there is an increased risk of default due to the age of the individual debts concerned.

Debtors that are less than three months past their due date, except those specifically provided for, are not considered impaired. As at 31st July 2011 debtors with a carrying value of £2,554,000 (2010: £2,105,000) were past their due date but not impaired. The ageing of debtors which are past their due date but not impaired is as follows:

	Group 2011 £000	Group 2010 £000	University 2011 £000	University 2010 £000
Less than 3 months past due	2,554	2,105	2,165	1,939
Between 3 to 6 months past due	-	-	-	-
Over 6 months past due	-	-	-	-
	2,554	2,105	2,165	1,939

The debtors assessed as past due but not impaired primarily relate to balances due from student and commercial customers of £1,775,000 (2010: £1,005,000) and research customers of £779,000 (2010: £1,100,000) 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

	Group		*University*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Bank loans	6,000	-	6,000	-
Amounts owed to subsidiary undertakings	-	-	67	4,358
Grants in advance for research	15,792	14,046	15,792	14,046
Grants in advance from SFC	8,108	12,549	8,108	12,549
Other creditors	48	48	22	22
Trade creditors	2,936	3,361	2,845	3,275
Other taxation and social security	3,431	3,015	3,214	2,835
Accruals and deferred income	19,988	19,206	17,802	16,677
	56,303	52,225	53,850	53,762

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

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

	Group		*University*	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Bank loans	20,000	20,000	20,000	20,000
Deferred income	5,287	5,647	3,800	4,071
Other creditors	181	208	129	129
	25,468	25,855	23,929	24,200
The above loans are repayable as follows:				
In one year or less (note 16)	6,000	-	6,000	-
	6,000		6,000	
Between one and two years	-	-	-	-
Between two and five years	-	-	-	-
In five years or more	20,000	20,000	20,000	20,000
	20,000	20,000	20,000	20,000
	26,000	20,000	26,000	20,000

The University has in place a committed revolving credit facility against which drawings of £26 million (2010: £20 million) had been made. Of this, £20 million 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%.

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

18. Provisions For Liabilities And Charges

	Group and University	
	Pensions	*Total*
	£000	*£000*
At 1 August 2010	579	579
Provided for during the year	56	56
Utilised during the year	(36)	(36)
At 31 July 2011	599	599
To be spent before 31 July 2012	57	57

19. Deferred Capital Grants

	Funding Council	*Other Grants*	*Total*
	£000	*£000*	*£000*
Group			
At 1 August 2010			
Buildings	25,117	10,234	35,351
Equipment	1,672	1,814	3,486
Total	26,789	12,048	38,837
Cash Received			
Buildings	1,696	1,463	3,159
Equipment	1,636	1,092	2,728
Total	3,332	2,555	5,887
Released to Income and Expenditure			
Buildings	(1,570)	(473)	(2,043)
Equipment	(608)	(942)	(1,550)
Total	(2,178)	(1,415)	(3,593)
At 31 July 2011			
Buildings	25,243	11,224	36,467
Equipment	2,700	1,964	4,664
Total	27,943	13,188	41,131

Cash received of £7,132,000 (2009: £11,868,000) is excluded from deferred capital grants and disclosed in creditors falling due within one year as it relates to grants received for which the matching tangible fixed asset was either still being constructed and/or was in the course of being purchased as at the year end date and so had not been capitalised.

Deferred Capital Grants (continued)

University			
At 1 August 2010			
Buildings	25,062	8,686	33,748
Equipment	1,672	1,734	3,406
Total	26,734	10,420	37,154
Cash Received			
Buildings	1,696	1,463	3,159
Equipment	1,636	1,091	2,727
Total	3,332	2,554	5,886
Released to Income and Expenditure			
Buildings	(1,568)	(425)	(1,993)
Equipment	(608)	(920)	(1,528)
Total	(2176)	(1,345)	(3,521)
At 31 July 2011			
Buildings	25,190	9,724	34,914
Equipment	2,700	1,905	4,605
Total	27,890	11,629	39,519

20. Endowments

	Group			*University*		
	Restricted Expendable £000	*Restricted Permanent £000*	*Total £000*	*Restricted Expendable £000*	*Restricted Permanent £000*	*Total £000*
At 1 August 2010	2,200	4,537	6,737	2,200	3,331	5,531
Additions	558	1,408	1,966	558	1,408	1,966
Appreciation	68	306	374	68	197	265
Income for year	40	179	219	40	114	154
Expenditure for the year	(475)	(157)	(632)	(475)	(90)	(565)
At 31 July 2011	2,391	6,273	8,664	2,391	4,960	7,351
	£000	*£000*	*£000*	*£000*	*£000*	*£000*
At 1 August 2009	2,425	3,659	6,084	2,425	2,587	5,012
Additions	1,055	155	1,210	1,055	155	1,210
Transfers	(368)	368	-	(368)	368	-
Appreciation	211	604	815	211	470	681
Income for year	35	97	132	35	97	132
Expenditure for the year	(1,158)	(346)	(1,504)	(1,158)	(346)	(1,504)
At 31 July 2010	2,200	4,537	6,737	2,200	3,331	5,531

21. Restricted Funds

	Group		University	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	87	156	-	-
Additions	12	-	-	-
Expenditure in the year	(99)	(69)	-	-
Balance at 31 July	-	87	-	-

22. Investment Reserve

	Group		University	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	959	4	-	-
Revaluation for the year	(959)	955	-	-
Balance at 31 July	-	959	-	-

23. Income and Expenditure Account including Pension Reserve

	Group		University	
		Re-stated		*Re-stated*
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Balance at 1 August	10,854	4,075	611	(3,473)
Net surplus retained for the year	5,517	7,077	2,157	4,345
Transfer from / (to) reserves	2,571	(298)	2,529	(261)
Balance at 31 July	18,942	10,854	5,297	611

	Group	
		Re-stated
	2011	*2010*
	£000	*£000*
The net surplus retained for the year is analysed as follows:		
University surplus	707	4,345
Gift Aid from subsidiaries	1,450	-
Surplus retained by subsidiaries	3,360	2,732
	5,517	7,077

Reconciliation:

	Group		University	
	2011	*2010*	*2011*	*2010*
	£000	*£000*	*£000*	*£000*
Income and expenditure reserve	30,791	25,848	17,067	15,458
Pension reserve	(11,849)	(14,994)	(11,770)	(14,847)
Balance at 31 July	18,942	10,854	5,297	611

Income and Expenditure Account including Pension Reserve (continued)

Represented by:

	Group		University	
		Re-stated		*Re-stated*
	2011	*2010*	*2011*	*2010*
Income and expenditure account	*£000*	*£000*	*£000*	*£000*
At 1 August	25,848	23,574	15,458	15,808
Surplus for the year	5,517	7,077	2,157	4,345
Transfer to pension reserve	(574)	(4,803)	(548)	(4,695)
At 31 July	30,791	25,848	17,067	15,458

	Group		University	
		Re-stated		*Re-stated*
	2011	*2010*	*2011*	*2010*
Pension Reserve	*£000*	*£000*	*£000*	*£000*
Deficit at 1 August	(14,994)	(19,499)	(14,847)	(19,281)
Current service cost	(2,232)	(2,125)	(2,181)	(2,076)
Employer contributions	2,883	3,300	2,813	3,237
Contributions in respect of unfunded benefits	16	21	16	21
Curtailments and settlements	-	(2)	-	(2)
Past service (cost) / income	(17)	4,339	(17)	4,241
Net return on assets	(76)	(730)	(83)	(726)
Actuarial gains / (losses)	2,571	(298)	2,529	(261)
Deficit at 31 July	(11,849)	(14,994)	(11,770)	(14,847)

24. Prior Year Adjustments

The prior year adjustment reflects a credit of £4,339,000 in the income and expenditure account, rather than a movement in reserves. There is no change to net assets; the reported surplus increased by £4,339,000.

The following table shows the re-stated amounts:

	Note	*Reported in 2009-10*	*Adjust-ment*	*Re-stated*
		£000	*£000*	*£000*
Income and Expenditure Account				
Staff costs		70,729	(4,339)	66,390
Other pension costs		9,316	(4,339)	5,477
STRGL				
Actuarial gain / (loss)		4,041	(4,339)	(298)

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

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

	Group	
		Re-stated
	2011	*2010*
	£000	*£000*
Income & expenditure		
Surplus on continuing operations after depreciation & disposal of assets and taxation	5,004	5,636
Restricted funds	87	69
Interest receivable	(257)	(121)
Interest payable	1,416	1,963
Taxation	(4)	-
	6,246	7,547
Fixed assets & deferred capital grants		
Depreciation of tangible fixed assets	6,366	7,075
(Profit) / loss on disposal of tangible fixed assets	(15)	212
Amortisation of intangible fixed assets	50	29
Loss on disposal of intangible fixed assets	-	151
Deferred capital grants released to income	(3,593)	(4,144)
Transfer (to) / from deferred capital grants to creditors	(4,736)	2,556
	(1,928)	5,879
Endowments & pensions		
Transfer from accumulated income to specific endowments	426	1,372
Transfer from accumulated income to restricted funds	87	69
Pension income	(574)	(4,803)
	(61)	(3,362)
Working capital		
Decrease / (increase) in fixed asset investments	5,433	(1,039)
Increase in stocks	(54)	(24)
Increase in debtors	(3,645)	(1,159)
Increase in creditors	2,427	4,699
Increase / (decrease) in provisions	20	(12)
	4,181	2,465
Reserves		
Decrease in restricted funds	(87)	(69)
(Decrease) / increase in investment reserve	(959)	955
	(1,046)	886
Net Cash Inflow from Operating Activities	7,392	14,145

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

26. Returns On Investment And Servicing Of Finance

	Group 2011 £000	Group 2010 £000
Income received on specific endowments	219	132
Expenditure paid on specific endowments	(632)	(1,504)
Interest received	257	122
Income received on restricted funds	12	-
Expenditure paid on restricted funds	(99)	(69)
Interest paid	(1,416)	(1,963)
Net Cash Outflow from Returns on Investment and Servicing of Finance	(1,659)	(4,012)

27. Capital Expenditure And Financial Investment

	Group 2011 £000	Group 2010 £000
Purchase of tangible fixed assets	(7,534)	(7,773)
Proceeds on disposal of tangible fixed assets	25	-
Purchase of intangible fixed assets	-	(200)
Payments to acquire endowment assets	(1,554)	162
Deferred capital grants received	5,887	2,727
Endowments received	1,966	1,210
Net Cash Outflow from Capital Expenditure and Financial Investment	(1,210)	(3,874)

28. Financing

	Group 2011 £000	Group 2010 £000
New amounts drawn down	6,000	-
Repayment of amounts borrowed	-	(3,000)
Net Cash Inflow / (Outflow) from Financing	6,000	(3,000)

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

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

	At 1 August 2010	*Cash Flows*	*Non-cash Changes*	*At 31 July 2011*
	£000	*£000*	*£000*	*£000*
Cash at bank and in hand	12,733	10,523	-	23,256
	12,733	10,523	-	23,256
Debts due within one year	-	(6,000)	-	(6,000)
Debts due after one year	(20,000)	-	-	(20,000)
	(7,267)	4,523	-	(2,744)

Had the cash held under endowment asset investments been included above, the net cash inflow would have been £6,077,000 (2010: inflow £6,097,000) with net cash at 31 July 2011 of £241,000 (2010: net debt £5,836,000). 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.

30. Pension Schemes

The total pension charge in the financial statements reflects the costs incurred by the group during the year of £10,881,000 (2010 - £5,477,000).

	Group	
		Re-stated
	2011	*2010*
	£000	*£000*
The total pension charge is analysed as follows:		
Universities Superannuation Scheme	8,591	8,107
Lothian Pension Fund	2,194	(2,727)
Scottish Teachers Superannuation Scheme	96	97
Supplementary Pension Scheme	-	-
	10,881	5,477

The pension costs are assessed in accordance with the advice of independent qualified actuaries using the projected unit method. The latest actuarial valuations of the USS and Lothian Pension Fund (LPF) schemes were on 31st March 2008, of the Scottish Teachers Superannuation Scheme on 31st March 2005 and of the Supplementary Pension Scheme (SPS) on 31st July 2004.

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

Pension Schemes (continued)

Universities Superannuation Scheme

Heriot-Watt participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

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

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

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

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

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

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

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

The standard mortality tables were used as follows:

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

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

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

Pension Schemes (continued)

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

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

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

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

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

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

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

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

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

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

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

Pension Schemes (continued)

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase / decrease by 0.5%	Decrease / Increase by £2.2 billion
Rate of pension increases	Increase / decrease by 0.5%	Increase / decrease by £1.5 billion
Rate of salary growth	Increase / decrease by 0.5%	Increase / decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements)	Increase by £1.6 billion

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme's actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of the covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

The total contribution made for the year ended 31st July 2011 was £8,793,000 (2010: £8,328,000), of which employer's contributions totalled £8,591,000 (2010: £8,107,000) and employee's contributions totalled £202,000 (2010: £221,000). The agreed contribution rates set are 16% (2010: 16%) for the employer and 6.35% (2010: 6.35%) for employees. However, changes to the scheme will be introduced as from 1st October 2011, including new employee contribution rates of 7.5% for members of the final salary section and 6.5% for members of the career re-valued section.

The employer's contributions include £83,000 (2010: £83,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Lothian Pension Fund

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

The major assumptions used by the actuary were:

	2011	*2010*
Price increases	*2.7%*	*2.9%*
Salary increases	*5.0%*	*4.9%*
Pension increases	*2.7%*	*2.9%*
Discount rate	*5.3%*	*5.4%*

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

	Long term rate of return % p.a.	*Assets at 31 July 2011 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2010 £000*
Equities	*7.0%*	48,988	*7.3%*	41,421
Bonds	*4.6%*	5,581	*4.8%*	4,906
Property	*5.1%*	6,201	*5.3%*	5,450
Cash	*4.2%*	1,240	*4.4%*	2,725
Total		62,010		54,502

The following amounts represent Heriot-Watt University's share of the scheme at 31st July 2011 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2011	*2010*
	£000	*£000*
At 1 August	54,502	46,318
Expected return on assets	3,695	3,246
Contributions by members	695	672
Contributions by employer	2,899	2,952
Benefits paid	(2,249)	(2,148)
Actuarial gains / (losses)	2,468	3,462
At 31 July	62,010	54,502

Pension Schemes (continued)

Reconciliation of present value of liabilities

	2011 £000	Re-stated 2010 £000
At 1 August	(69,496)	(65,793)
Current service cost	(2,232)	(2,125)
Interest cost	(3,771)	(3,967)
Contributions by members	(695)	(672)
Curtailments and settlements	-	(2)
Past service (losses) / gains	(17)	4,339
Benefits paid	2,249	2,148
Actuarial gains / (losses)	103	(3,424)
At 31 July	(73,859)	(69,496)
Net pension liability	(11849)	(14,994)

Analysis Of Amount Charged To Operating Profit

	2011 £000	2011 % of payroll	Re-stated 2010 £000	Re-stated 2010 % of payroll
Amount charged to operating profit				
Service cost	2,232	19.45%	2,125	19.2%
Past service (losses) / gains	(17)	(0.2)%	4,339	39.2%
Total Operating Charge	2,215	19.3%	6,464	58.4%

Analysis Of Amount Credited To Other Finance Income

	2011 £000	2011 % of payroll	2010 £000	2010 % of payroll
Expected return on employer assets	3,695	32.2%	3,246	29.3%
Interest on pension scheme liabilities	(3,771)	(32.9)%	(3,967)	(35.8)%
Net Return	(76)	(0.6)%	(721)	(6.5)%
Estimated net revenue account cost	(152)	(1.3)%	1,404	(26.5)%

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

	2011 £000	Re-stated 2010 £000
Actual return less expected return on pension scheme assets	2,468	3,462
Experience gains / (losses) arising on the scheme liabilities	103	(3,424)
Actuarial gain in pension plan	2,571	38
Actuarial gain recognised in STRGL	2,571	38

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

Pension Schemes (continued)

Movement In Deficit During The Year

	2011 £000	Re-stated 2010 £000
Deficit at start of the year	(14,994)	(19,475)
Current service cost	(2,232)	(2,125)
Employer contributions	2,883	2,931
Contributions in respect of unfunded benefits	16	21
Curtailments and settlements	-	(2)
Past service (losses) / gains	(17)	4,339
Net return on pension assets	(76)	(721)
Actuarial gains	2,571	38
Deficit at end of the year	(11,849)	(14,994)

History Of Experience Gains And Losses

	2011 £000	Re-stated 2010 £000
Difference between expected and actual return on assets	2,468	3,462
Value of assets	62,010	54,502
Percentage of assets	*4.0%*	*6.4%*
Experience gains / (losses) on liabilities	24	(37)
Total present value of liabilities	73,859	69,496
Percentage of the total present value of liabilities	*-%*	*-%*
Actuarial gain recognised in STRGL	2,571	38
Total present value of liabilities	73,859	69,496
Percentage of the total present value of liabilities	*3.5%*	*-%*

The Group has recognised, as a prior year adjustment, the UK government's announcement in June 2010 that future increases in public sector pension schemes will be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). For further information refer to note 24 on page 42.

The total contribution made for the year ended 31st July 2011 was £3,543,000 (2010: £3,476,000), of which employer's contributions totalled £2,861,000 (2010: £2,809,000) and employee's contributions totalled £682,000 (2010: £667,000). The agreed contribution rates for future years are 25.9% (2010: 25.9%) for employers and 6.4% (2010: 6.4%) for employees. The employer's contributions include £295,000 (2010: £297,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Scottish Teachers Superannuation Scheme

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

The 2005 actuarial valuation date was carried out using an approach known as 'superannuation contributions adjusted for past experience' (SCAPE). Using SCAPE, with effect from 1st April 2001, the notional investments will earn a real rate of return (in excess of price increases) specified by the Government Actuary. In addition, the Teachers Superannuation (Scotland) Amendment Act 2003 states that, for the purposes of the actuarial review as at 31st March 2005, the balance in the account at that date shall be such that the value of the scheme's assets equals the value of the scheme's liabilities.

The results of this valuation were rolled forward to give a liability of £24.37 million at 31st 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 31st July 2011 was £137,000 (2010: £139,000), of which employer's contributions totalled £96,000 (2010: £97,000) and employee's contributions totalled £41,000 (2010: £42,000). The agreed contribution rates for future years are 14.9% (2010: 14.9%) for employers and 6.4% (2010: 6.4%) for employees. The employer's contributions include £12,000 (2010: £11,000) of outstanding contributions at the balance sheet date.

Pension Schemes (continued)

Supplementary Pension Scheme

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

The major assumptions used by the actuary were:

	2011	*2010*
Price increases	*-%*	*3.1%*
Pension increases	*-%*	*3.1%*
Discount rate	*-%*	*5.4%*

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

	Long term rate of return % p.a.	*Assets at 31 July 2011 £000*	*Long term rate of return % p.a.*	*Assets at 31 July 2010 £000*
Fixed interest & index linked securities	*-%*	-	*4.8%*	1,105
Total		-		1,105

The following amounts represent Heriot-Watt University's share of the scheme at 31st July 2011 and were measured in accordance with the requirements of FRS 17:

Reconciliation of employer assets

	2011 *£000*	*2010* *£000*
At 1 August	-	1,061
Expected return on assets	-	54
Contributions by employer	-	369
Benefits paid	-	(60)
Actuarial losses	-	(319)
At 31 July	-	1,105

Reconciliation of present value of liabilities

	2011 *£000*	*2010* *£000*
At 1 August	-	(1,085)
Interest cost	-	(63)
Benefits paid	-	60
Actuarial losses	-	(17)
At 31 July	-	(1,105)
Net pension liability	-	(24)

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

Pension Schemes (continued)

Analysis Of Amount Credited To Other Finance Income

	2011	*2010*
	£000	*£000*
Expected return on employer assets	-	54
Interest on pension scheme liabilities	-	(63)
Net Return	-	(9)
Estimated net revenue account cost	-	(9)

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

	2011	*2010*
	£000	*£000*
Actual return less expected return on pension scheme assets	-	(319)
Experience gains / (losses) arising on the scheme liabilities	-	31
Changes in assumptions underlying the present value of the scheme liabilities	-	(48)
Actuarial loss in pension plan	-	(336)
Actuarial loss recognised in STRGL	-	(336)

Movement In Deficit During The Year

	2011	*2010*
	£000	*£000*
Deficit at start of the year	-	(24)
Employer contributions	-	369
Net return on pension assets	-	(9)
Actuarial losses	-	(336)
Deficit at end of the year	-	-

History Of Experience Gains And Losses

	2011	*2010*
	£000	*£000*
Difference between expected and actual return on assets	-	(319)
Value of assets	-	1,105
Percentage of assets	*-%*	*(28.9)%*
Experience gains / (losses) on liabilities	-	31
Total present value of liabilities	-	1,105
Percentage of the total present value of liabilities	*-%*	*2.8%*
Actuarial losses recognised in STRGL	-	(336)
Total present value of liabilities	-	1,105
Percentage of the total present value of liabilities	*-%*	*(30.4)%*

The total contribution made for the year ended 31st July 2011 was £nil (2010: £369,000), of which employer's contributions totalled £nil (2010: £369,000) and employee's contributions totalled £nil (2010: £nil).

NOTES TO THE ACCOUNTS
For the year ending 31st July 2011

31. Post Balance Sheet Events

On the 3rd October 2011 the Court gave approval for the University for it to proceed with the detailed planning and other work required to establish a new campus, located in Malaysia, opening in 2014-15.

There are no other material post Balance Sheet events.

32. Capital Commitments

Provision has not been made for the following capital commitments at 31st July 2011:

	Group	
	2011	*2010*
	£000	*£000*
Commitments contracted	27,539	1,912
Authorised but not contracted	8,365	3,116
	35,904	5,028

33. Financial commitments

At 31st July 2011 there were annual commitments under non-cancellable operating leases as follows:

	Group	
	2011	*2010*
	£000	*£000*
Other:		
Expiring within one year	354	89
Expiring between two to five years inclusive	501	52
Expiring in over five years	-	-
	855	141

34. Contingent Liability

There are no material contingent liabilities.

35. Related Party Transactions

There are no material related party transactions.

36. Access Funds

		Group	
	Childcare	*Hardship*	*Total*
	£000	*£000*	*£000*
At 1 August 2010	-	7	7
Funding Council grants	68	364	432
Disbursed to students	(61)	(304)	(365)
Balance unspent at 31 July 2011	7	67	74
Repayable to funding body	-	-	-

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

37. Financial Instruments

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

- Liquidity risk
- Credit risk
- Market risk

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

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

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

The table below details the contractual maturities of financial liabilities.

	Carrying amount	*Contractual cash flows*	*Within one year*	*After more than one year*
	£000	*£000*	*£000*	*£000*
Financial liabilities				
Trade creditors and other payables	36,496	-	36,315	181
Other financial liabilities	26,000	-	6,000	20,000
	62,496	-	42,315	20,181

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

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

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

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

	Carrying Amount	
	2011	*2010*
	£000	*£000*
Financial assets		
Trade debtors and other receivables	16,256	13,759
Cash and cash equivalents	23,256	12,733
	39,512	26,492

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

Financial Instruments (continued)

Market risk

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

Interest rate risk

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

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

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

	Carrying Amount	
	2011	*2010*
	£000	*£000*
Fixed rate instruments		
Financial assets	-	-
Financial liabilities	26,000	20,000
	26,000	20,000

	Carrying Amount	
	2011	*2010*
	£000	*£000*
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-
	-	-

Currency risk

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

Financial Instruments (continued)

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

	Carrying amount	*Fair value*	*Carrying amount*	*Fair value*
	2011	*2011*	*2010*	*2010*
	£000	*£000*	*£000*	*£000*
Financial assets held for sale			-	-
Trade debtors and other receivables	16,256	16,256	13,759	13,759
Cash and cash equivalents	23,256	23,256	12,733	12,733
Trade creditors and other payables	(36,496)	(36,496)	(33,227)	(33,227)
	3,016	3,016	(6,735)	(6,735)

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

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

MEMBERS OF COURT
At 14th November 2011

Chancellor	*Baroness Susan Greenfield*[7]	CBE, MA, DPhil, DSc (Hon), FRCP
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 Tim McKay[1]	BSc, FCA, ASIP
Senate	Dr Alexander Bell	BSc, PhD, DipEd, FHEA, MInstP, CPhys
	Dr Jennie Hansen	BA, MSc, PhD
	Professor James Ritchie	BSc, MSc, CEng, MIMechE, MIET, FHEA
	Professor Brian S Robertson[2]	Eur. Ing, BSc (Hons), CEng, MIET, MCIBSE, Hon.FSIET, FHKICE
	Professor Peter Woodward[5]	BEng, PhD
Staff	*Professor Dugald Duncan*[2]	BSc, PhD
	Mr Allan Gray	
	Professor David Lane[5]	BSc, PhD, FRSE, FRGS, FIET, FSUT
	Ms Gill McDonald[5]	MA, MBA, MCLIP, FHEA
	Ms Jane Queenan[2]	LlB, MBA
Graduates	*Mr Malcolm Durie*[2]	BSc, CEng
	Mr Gregor Colville[1]	MEng, MSc, DIC, CEng, FIES, MEI, AMIChemE
	Mr Keith Wallace[5]	Bsc (Hons), CEng, CDir, FICE, FIHT, FCILT, FRSA
Students Association	*Mr Simon Eltringham*[4]	MSc
	Mr Murray J. Hope[4]	BArch, BSc
	Mr Michael Ross[3]	BSc
	(1 vacancy)	
Co-opted	Mr Nicholas Beadle[1,5]	CMG, MBA, LLB
	Mr Neil Fraser[1,2]	BA
	Professor Ken Gill[1,5]	BA, PgCE, MBA, FRSA, CPFA, MCIPD, MAAT
	Ms Shonaig Macpherson[1]	CBE, LIB, DUniv, FRSE
	Mr Strone Macpherson[1,5]	
	Dr Judith McClure[1]	CBE MA DPhil FSAScot
	Mr Iain McLaren[1]	BA, CA
	Mr Andrew Milligan[1,5]	BSc
	Mr Andrew Muirhead[1,6]	FCIBS, MBA
	Dr Alan Parsley[1,2]	BSc, PhD
	Mr David Robinson[1]	MA, FFA
	Mr Tony Strachan[1,5]	MBA, FCIS
	Dr Ian Wall[1,8]	FRICS, Hon FRIAS

[1] Lay Member of Court
[2] *Member until 31st July 2011*
[3] Member from 1st June 2011
[4] *Member until 31st May 2011*
[5] Member from 1st August 2011
[6] *Member until March 2011*
[7] *Member until July 2011*
[8] Member from 3rd October 2011

MEMBERSHIP OF COMMITTEES OF COURT
At 14th November 2011

AUDIT & RISK COMMITTEE	Mr D G Robinson (Chair)
	Mr D A Brew[1]
	Mr W Dick[5]
	Professor K Gill[3]
	Mr B Kay[5]
	Mr A Milligan[3]
	Mr A Muirhead[6]
	Dr A Parsley[1]
	Mr T Strachan[3]
COLLECTIONS COMMITTEE	*Mr M Durie (Chair)* [1]
	Professor S Chapman
	Professor R J M Craik
	Ms A Edgar
	Mr S Eltringham[2]
	Mr D Guest
	Dr J Hansen
	Professor A Harley
	Ms A Jones
	Professor M McCoustra
	Ms M McMillan
	Professor Emeritus G Palmer[1]
	Lord G Penrose
	Mr M Ross[3]
	Mr M Timmins
EMERGENCY COMMITTEE	Lord G Penrose (Chair)
	Professor S Chapman
	Professor D Duncan[1]
	Mr N Fraser[1]
	Professor J Jones
	Dr J McClure
	Mr I McLaren
	Mr A Muirhead[6]
	Mr D G Robinson
ESTATE STRATEGY COMMITTEE	Dr I Wall (Chair) [3]
	Mr N Fraser (Chair) [1]
	Professor S Chapman
	Mr M Durie[1]
	Mr R Durie[1]
	Mr S Eltringham[2]
	Professor J Jones
	Mr D Maxwell[3]
	Lord G Penrose
	Ms J Queenan[1]
	Professor J Ritchie
	Mr M Ross[4]
	Professor J I B Wilson
	Mr K Wright[3]

MEMBERSHIP OF COMMITTEES OF COURT
At 14th November 2011

FINANCE COMMITTEE	Mr I McLaren (Chair)
	Professor S Chapman *Professor D Duncan* [1] *Mr M Durie* [1] *Mr N Fraser*[1] Professor J Jones Professor David Lane[3] *Mr J Laurie*[1] Dr J McClure Lord G Penrose Mr R Perman Dr Ian Wall[3]
GOVERNANCE AND NOMINATIONS COMMITTEE	Lord G Penrose (Chair)
	Professor S Chapman *Mr N Fraser*[1] Professor J Jones Dr Judith McClure Mr I McLaren Mr D Robinson
REMUNERATION COMMITTEE	Lord G Penrose (Chair)
	Dr J McClure Mr I McLaren
STAFFING STRATEGY COMMITTEE	Dr J McClure (Chair)
	Mr R Bailey[5] Dr A Bell Professor S Chapman Mr A Gray Professor J Jones *Professor G H O Palmer*[1] Lord G Penrose *Mr B Stewart*[1] Professor A C Walker

[1] *Member until 31st July 2011*
[2] *Member until 31st May 2011*
[3] Member from 1st August 2011
[4] Member from 1st June 2011
[5] Member from February 2011
[6] Member until March 2011

COMMITTEE ATTENDANCE RECORD
At 14th November 2011

Summary of Court and Committee Attendance 2010-2011 (Members Only)

Name	Dates to/from	Court 6 meetings	Audit & Risk Committee 5 meetings	Estate Strategy Committee 3 meetings	Finance Committee 4 meetings	Joint Audit/Finance Committee 1 meeting	Staffing Strategy Committee 4 meetings	Governance & Nominations Committee** 3 meetings	Collections Committee 1 meeting
		Attendance							
Dr Alex Bell		6/6					4/4		
Prof Steve Chapman		6/6		1/3	3/4	1/1	3/4	3/3	0/1
Mr Gregor Colville		5/6							
Prof Dugald Duncan		6/6			3/4				
Mr Malcolm Durie		5/6		2/3	4/4	1/1			1/1
Mr Simon Eltringham	Retired from office in 05/11	2/5		1/3					0/1
Mr Neil Fraser		5/6		3/3	0/4	0/1		2/3	
Mr Allan Gray		5/6					4/4		
Baroness Susan Greenfield		0/6							
Prof Julian Jones		4/6		2/3	4/4	1/1	3/4	1/3	
Dr Jennie Hansen		6/6							1/1
Mr Murray Hope	Retired from office in 05/11	4/6							
Ms Shonaig Macpherson		4/6							
Dr Judith McClure	GNCA from 03/11	5/6			3/4	1/1	4/4	1/3	
Councillor Tim Mckay		1/6							
Mr Iain McLaren		5/6			4/4	1/1		2/3	
Mr Andrew Muirhead	Retired from office in 03/11	1/6	2/5			0/1			
Dr Alan Parsley		6/6	5/5			1/1			
Rt Hon Lord George Penrose		5/6		1/3	3/4	1/1	0/4	2/3	0/1
Ms Jane Queenan		4/6		3/3					
Prof James Ritchie		3/6		1/3					
Prof Brian Robertson		5/6							
Dr David Robinson		5/6	5/5			1/1		2/3	
Mr Michael Ross	Elected to office in 06/11	0/6							
Mr David Brew			5/5			1/1			
Mr Will Dick	Taken up office in 02/11		2/5						
Mr Bob Kay	Taken up office in 02/11		2/5						
Mr Roy Durie				3/3					
Prof John Wilson				2/3					
Mr John Laurie					2/4	1/1			
Mr Ray Perman					3/4	0/1			
Mr Richard Bailey	SSC from 01/11						2/4		
Prof Geoff Palmer							2/4		0/1
Mr Boyne Stewart							2/4		
Prof Bob Craik									0/1

COMMITTEE ATTENDANCE RECORD
At 15th November 2010

		Attendance							
Name	Dates to/from	Court 6 meetings	Audit & Risk Committee 5 meetings	Estate Strategy Committee 3 meetings	Finance Committee 4 meetings	Joint Audit/Finance Committee 1 meeting	Staffing Strategy Committee 4 meetings	Governance & Nominations Committee** 3 meetings	Collections Committee 1 meeting
Mr Mark Timmins									0/1
Ms Angela Edgar									1/1
Mr David Guest									1/1
Prof Alison Harley									0/1
Ms Ann Jones									1/1
Prof Martin McCoustra									1/1
Ms Maureen McMillan									0/1

* In some cases professional commitments have prevented members from attending all committee meetings
** Formerly the Nominating & Review Committee