



University
of Glasgow

Financial Statements

for the year to 31 July 2008



FINANCIAL STATEMENTS FOR THE YEAR TO 31 JULY 2008

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OPERATING AND FINANCIAL REVIEW

This Operating and Financial Review describes the main trends and factors underlying the University of Glasgow's ("the University's") performance during the year to 31 July 2008 ("2007-8"). It has been prepared in line with the guidance provided on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

About the University of Glasgow

History

The University is the fourth oldest university in the English-speaking world. Founded in 1451 it has earned an international reputation for research innovation, for connecting with experts in global business, and for inspiring thinkers, from the eminent scientist Lord Kelvin, to the father of economics Adam Smith. Building on such vast experience, the University is a member of the elite Russell Group of 20 major research universities and is in the top 1% of the world's universities today (*Times Higher Education Supplement*).

Principal operations

Study and research at the University is grouped into nine faculties made up of broadly related departments. These faculties are:

- Faculty of Arts;
- Faculty of Biomedical and Life Sciences;
- Faculty of Education;
- Faculty of Engineering;
- Faculty of Information and Mathematical Sciences;
- Faculty of Law, Business and Social Sciences;
- Faculty of Medicine (including Dentistry and Nursing);
- Faculty of Physical Sciences;
- Faculty of Veterinary Medicine.

The majority of operations are carried out on the University's main Gilmorehill campus in the west end of Glasgow. The University educates more than 15,000 undergraduate students, 4,900 postgraduate students and 3,500 adult learners. Finding community within diversity, the University attracts students from more than 120 countries, as well as academics from around the globe. In addition, as a venue for international conferences and a hub of cultural interest, the University is also a major contributor to the cultural and commercial life of the country.

Constitution, governance and regulation

Founded by Papal Bull in 1451, much of the University's modern constitutional framework derives from the Universities (Scotland) Act 1966, which updated and expanded on the Universities (Scotland) Acts 1858 to 1932. These Acts make provision for the main statutory bodies and officers of the University - the Court, the Senate, the General Council, the Chancellor, the Principal and Vice Chancellor, and the Rector - and set out the powers and duties of the statutory bodies and officers, as well as specifying the composition of the statutory bodies.

From 1858 until 1966 the University exercised its powers using Ordinances. These were drafted by the University and given legal authority by the Privy Council after approval by the General Councils of the other Scottish Universities. The Universities (Scotland) Act 1966 enabled the University to exercise its powers using Resolutions. These are issued by the University Court of the University of Glasgow ("Court") after consultation with the university community. In a few restricted areas, mainly of constitutional import, Ordinances are still required.

Court is responsible for the management and regulation of the financial affairs of the University, ensuring compliance with the Financial Memorandum and associated guidance as published by the Scottish Further and Higher Education Funding Council ("Scottish Funding Council"). A full statement of Court's responsibilities is detailed on page 10, membership of Court is detailed on page 11 and Court's corporate governance arrangements are detailed on pages 8 and 9.

The University is a charity and is registered with the Office of the Scottish Charity Regulator under number SC004401. The Principal is the chief executive officer appointed by Court who is directly accountable to the chief executive officer of the Scottish Funding Council for the institution's proper use of funds.

OPERATING AND FINANCIAL REVIEW (continued)

Objectives and strategy

Building on excellence

The University's mission is to undertake leading-edge, internationally-competitive research while offering a flexible learning environment that encourages students and staff to achieve their goals. Through its status as a leading international University, the University works with business, industry and the community to sustain and add value to Scottish culture and society, the natural environment and the UK economy.

In 2006 the University published 'Building on Excellence', which set out the University's ambitions to be one of the best universities in the world, by being an outstanding place for research, teaching and learning. By 2010 the University aims to be:

- in the UK's top ten universities, and in the world's top 50 research-intensive universities;
- an international leader in research across the physical sciences, life sciences, social sciences and humanities;
- renowned internationally for enquiry-led learning in a knowledge culture shaped by the University's research environment;
- recognised as a leading postgraduate University, renowned for the quality and breadth of its provision;
- a University which attracts and retains the very best staff;
- a great place to study, research and work.

The objectives will be pursued whilst ensuring that the University remains in a financially sustainable position, allowing capacity for investment for the future.

Performance during the year

Overview

During 2007-8, the University has made progress towards its objectives. Progress is measured through the use of a number of quantitative key performance indicators ("KPIs"). The KPIs have been discussed and approved by Court and are presented and reviewed on an annual basis. Qualitative measures are also used in order to gauge progress against objectives where quantitative measures are less relevant.

Externally the University's reputation, as measured by league tables, showed impressive advances. In the *Times Higher Education – Quacquarelli Symonds World University Rankings* the University rose 10 places to 73. This was matched by improvements in the UK-based *Guardian*, the *Times* and the *Independent* league tables. The University moved up 12 positions in the *Guardian University Guide* league table to 20th place. In the *Times Good University Guide* it advanced 11 places to 20th. In the *Independent* league table for 2008 it climbed 14 places to reach joint 16th place.

Teaching

The University's commitment to teaching and learning excellence has been demonstrated with the results of the 2008 National Student Survey, which showed 86% satisfaction among final year students. This result shows the University to be within reach of its aim to achieve 90% for overall student satisfaction by 2010-11. The results are due to the commitment of staff and the impact of significant investments made in the learning environment. The University has also introduced Teaching Excellence Awards which have proved very positive for the University community.

Research

The University has continued to invest in people and infrastructure. During the year, in addition to significant investment in refurbishment, new buildings were opened to support research in leukemia, cancer and computer science. During the calendar year 2007 the University had the largest increase in research grant awards of any UK University and was 8th in terms of absolute value of awards. Highlights included the highest particle physics funding in the UK from the Particle Physics and Astronomy Research Council, and the highest arts funding for higher education in the UK from the Arts and Humanities Research Council. In December 2007 the University submitted 14% more staff to the national Research Assessment Exercise (RAE) than in the last RAE, which was conducted in 2001.

High quality research students and early career researchers are being attracted to the University through the use of studentship and fellowship schemes, many of which are supported by external fundraising and aimed at stimulating new cross-disciplinary collaborations. The target set for recruitment of postgraduate research students was exceeded in the year.

OPERATING AND FINANCIAL REVIEW (continued)

Performance during the year (continued)

Internationalisation

The University has seen a significant increase in international student numbers over the past five years. The growth trend slowed during 2007-8, particularly for students studying taught postgraduate courses. As part of an action plan to address the slow down in growth, the University has appointed regional champions to lead the development of strategy in key global regions. Two other recent advances should also help the University to recruit the best students from abroad; the establishment of a partnership with Glasgow International College and the Commonwealth Scholarship Scheme. A first for Scotland, Glasgow International College offers academic skills and English language courses that prepare international students for entry to the University's undergraduate and postgraduate programmes. The University's Commonwealth Sponsorship Scheme has been launched to mark the city of Glasgow's success in securing the Commonwealth Games. It will give 53 students – one from each country of the Commonwealth – the opportunity to study at the University.

The University has introduced new models of Educational Partnership in order to diversify the range of study opportunities for international students. These include the delivery of a significant proportion of a University of Glasgow degree programme with an institution overseas, and the launch of its first double degree (with the University of St Petersburg). Collaborative developments have also been introduced within postgraduate research provision, with new models of split site supervision implemented to help grow research student numbers.

Meanwhile, the University's international student community has shown its satisfaction with the quality of education and support available at Glasgow, recording impressive results in the 2008 International Student Barometer. According to the survey, the University's international students are the most satisfied among the Russell Group of major research universities and the third most satisfied overall in the UK. 86% of the University's international students would recommend the University to others.

Postgraduate expansion

The University's outstanding reputation for research, learning and teaching, and its investment in facilities is contributing to make the University an attractive choice for the best postgraduate students from across the globe. Postgraduate numbers have increased by 20% over the last five years and applications have increased by 41% during 2007-8. More than 40 new postgraduate taught courses were launched in September 2008.

Financial performance

Financial highlights

The University delivered a £6.9m operating surplus during the year which was a £0.5m improvement on 2006-7 (surplus of £6.4m). The highlights are as follows:

	2008 £000	2007 (as restated) £000
Total income	397,005	362,215
Total expenditure	390,141	355,862
Surplus after depreciation of tangible fixed assets at valuation and before exceptional items	6,864	6,353
Disposal of fixed assets	-	9,080
Surplus on continuing operations after depreciation of assets at valuation and disposal of fixed assets	6,864	15,433
Surplus for the year transferred to accumulated income in endowments funds	(986)	(415)
Surplus for the year retained within general reserves	5,878	15,018
Revaluation reserve release	5,114	9,681
Historical cost surplus for the year	10,992	24,699

2006-7 has been restated to include the assets, liabilities and results of Kelvin Nanotechnology Limited which have been consolidated in the financial statements for 2007-8 (See Statement of Principal Accounting Policies on page 14).

OPERATING AND FINANCIAL REVIEW (continued)

Financial performance (continued)

Operating income

Total income grew in the year by 9.6% with the highlights as follows:

	Year on Year % Growth	
Funding body grants	+3.1%	The main movements were growth in the teaching and quality research grants which increased by 1.7% and 9.3% respectively.
Tuition fees and education contracts	+10.8%	The growth was predominately due to increased income from home and EU students which grew by 9.3% in the year and research support grants which grew 34.6% in the year. Growth in overseas students slowed in the year to 1.9%.
Research grants and contracts	+19.7%	There was strong growth in this area with the main improvements in research councils (+22.4%), charities (+16.2%) and UK industry (+17.0%).
Other income	+3.3%	Residences / catering and other services rendered increased by 6.5% and 13.8% respectively in the year. This growth was partially offset by a reduction in VAT recoveries in the year.
Endowment and investment income	+42.5%	The main movement was on interest received which increased by 88.4% in the year in line with the favourable movement in net funds.

Operating expenditure

Operating expenditure grew in the year by 9.6%. Staff costs grew by 10.1% in the year with 6.5% of the increase due to inflation and incremental wage movements. Headcount increased in the year by 4.2% as strategic appointments continued to be made, and a number of posts that were vacant during 2006-7 were filled. Other operating expenses increased by 9.3% in the year, with the biggest increase within research and other contracts (+21.1%) in line with the growth in income in this area. Depreciation increased in the year by 7.7% as capital investment in the estate continued.

Net funds and cash flow

Net funds increased in the year by £27.0m to a closing balance of £67.1m at 31 July 2008. The main cash inflows were within operating activities (+£34.3m), with a positive operating surplus for the year adjusted for non cash items, reduced working capital due to increased income in advance and accrual balances, and receipt of the second instalment associated with the sale of the St Andrew's campus. The main cash outflow in the year was on capital expenditure where investment in the estate continued. Capital expenditure in the year, net of deferred capital grants received, was £14.8m with the major projects being:

- re-development of the 'Hub' as a fulcrum for student services across the University;
- new build small animal hospital at the Gartnavel campus;
- continued investment in the library;
- completion of new facilities for research in leukaemia, cancer and computer science.

FRS 17 pension liability

The FRS 17 pension liability for the University of Glasgow Pension Scheme (UGPS) has increased in the year from £37.3m to £56.4m. The main movement was the actuarial loss on pension assets which was £24.7m in the year. Employer contribution rates have increased to 25.5% from 1 April 2008 following the triennial actuarial valuation completed at 31 March 2007 (See note 30).

OPERATING AND FINANCIAL REVIEW (continued)

Financial performance (continued)

Investment performance

The past financial year has seen turbulence in global stock markets and this is reflected in a decrease in the value of endowment investments from £133.4m to £120.5m. The performance of the fund managers continues to be monitored by the Investment Advisory Committee against targets set annually.

Creditors policy

The University aims to pay all of its suppliers promptly. The terms of payment of the University are 30 days from the date of invoice but specific terms and conditions can be agreed for certain suppliers if required. As at 31 July 2008 the University's trade creditors outstanding represented approximately 16 days purchases (2007 - 14 days).

Treasury management

The financing and liquidity of the University and its exposure to financial risk is overseen by Court through the Finance Committee. Each year as part of the financial budgeting process, three year rolling forecasts are prepared which consider the likely cash position of the University given the assumed operational movements and planned investment in fixed assets and working capital. This enables the Finance Committee to consider any future borrowing requirements in a timely manner.

The University's non endowment cash balances are primarily held in the form of interest bearing deposits with financial institutions. The deposits are managed in line with University policy to minimise financial risk by placing deposits only with institutions who are rated at a minimum of AA, with a maximum of £20m held with any single institution. The University is exposed to changing interest rates, although the exposure is viewed as low given that interest income accounts for less than 1% of the total income of the University in 2007-8.

Policies

Accounting policies

The University financial statements have been prepared in accordance with the Statement of Principal Accounting Policies as set out on pages 14 to 16. The principal accounting policies have been revised in accordance with the adoption of the revised Statement of Recommended Practice for Higher Education (SORP) issued by Universities UK in 2007. These changes are disclosed on page 14. The format of the financial statements reflects the format as required by the 2007 SORP. The notes to the financial statements reflect best practice guidance given by the British Universities Finance Directors' Group and also any requirements issued by the Scottish Funding Council in its annual accounts instructions. Where a prior year restatement is required, this is disclosed within the Statement of Principal Accounting Policies.

Disability policy

The University is committed to the implementation of a policy to achieve equality of opportunity for students, members of staff and potential members of staff, and to meeting the requirements of the Disability Discrimination Act 2005. To enable the University to fulfil its mission statement the aim is to build an inclusive and supportive environment which meets the needs of all staff, students and visitors to the University. The Disability Policy provides a framework for promoting disability equality with the aim of identifying and removing any barriers which exist for disabled people using the University's facilities, and enabling them to access as fully as possible all education, employment, social and leisure opportunities.

Equality and diversity policy

The University is committed to ensuring that the creativity, innovation and talents of its people are fully utilised. The University community is made up of a wide range of people with diverse backgrounds and circumstances, which is valued and regarded as a great asset. The University has developed a policy that aims to challenge discrimination, promote and implement equality measures, progress social justice and to strive to ensure that no one is disadvantaged. The policy also looks to ensure that the University complies with all current and relevant anti discrimination legislation. By adopting this policy the University accepts its responsibility to ensure that discrimination does not take place and that everyone in the University is treated fairly and equally.

Ethical investment policy

It is the role of Court to set out the ethical platform on which the University's endowment asset investments are managed. Court instructs its investment managers, through the Investment Advisory Committee, to invest University funds only with those companies who meet the criteria set for ethical investment. The criterion set by the University in addition to the investment managers' own ethical investment policies is that investment in companies substantially involved in tobacco is prohibited. ("Substantially" in this context is interpreted as resulting in more than 10% of profit being derived from that sector). It is the role of the Investment Advisory Committee to maximise the potential returns on investments within such restrictions as established by Court.

OPERATING AND FINANCIAL REVIEW (continued)

Future developments

Court remains committed to the ambitions as laid out in 'Building on Excellence'. 2007-8 saw the University deliver an operating surplus for the third consecutive year and the financial plans for the next three years project that this position will be maintained whilst continuing to invest for the future. The University also made progress on its non-financial objectives during the year. The next financial year will see additional staff recruited across the faculties in areas of strategic importance. Administrative services will also see investment particularly in recruitment and other student facing services.

The University has improved its cash position markedly in recent years which will be used to support substantial planned capital investment in new facilities at the Gilmorehill and Garscube campuses, as well as upgrading of current buildings and infrastructure. Current net funds forecast projections indicate that the University will not require any long term borrowing facility over the financial planning horizon of three years.

The Senior Management Group assesses the strategic risks that the University faces on a regular basis and identifies and executes appropriate abatement plans. The main sensitivities are on cost pressures, investment and income growth.

Cost pressures

Looking forward, the University faces a number of challenges across its cost base. The next financial year is the final year of the sector wide wage settlement as agreed in 2006 which will see a 5.0% increase in October 2008, which follows a 3.0% increase in May 2008. Negotiations will also begin on the next wage settlement in early 2009, which will come into force from August 2009. Utility costs (gas, electricity and water) are expected to increase by approximately 60% next year following a sector wide tendering process completed by Advanced Procurement for Universities and Colleges, on behalf of the Universities in Scotland. The University endowment funds and net pension liabilities are underpinned by investments which are included in the financial statements at market value as at 31 July 2008. These have been subject to subsequent market fluctuation, the impact of which is closely monitored. Employer contributions for the 'University of Glasgow Pension Scheme' were increased from April 2008 following the triennial valuation at April 2007. The 'University Superannuation Scheme' was formally valued in 2008 and any change to existing funding requirements has yet to be confirmed. Early indications are that there is likely to be an increase in the employer contributions payable by the University, from October 2009 onwards.

Investment

The University has an ambitious capital strategy with significant investment planned across the campus over the next 10-15 years. The University campus also has a large number of old listed buildings which have a significant backlog of outstanding maintenance. Progress has been made in recent years with the improvement in the University's operating position providing the capacity for investment in capital and maintenance. In addition the University will invest in its systems infrastructure which is fragmented and does not currently deliver an effective or efficient platform for an institution of the scale of the University.

Income growth

With the pressures on costs and the requirement for continued investment, growing the University's income base remains a priority. The University has stretching ambitions for growing its research volume and its student numbers, particularly those from outside of the European Union. The growth targets have been under-pinned by investment in staff, new courses, market intelligence and infrastructure. Progress in these areas will be closely monitored and any required additional action to deliver the University's objectives will be implemented quickly. The results of the recent RAE exercise will be published during 2008-9 and the impact on the University's finances from 2009-10 onwards will be assessed once the results are known. Recurrent grant income from the Scottish Funding Council is also likely to come under pressure in coming years as public finance tightens. The University is fully engaged in dialogue with the Scottish Government and Scottish Funding Council to ensure that the strategic issues are fully understood by all parties.

With an increasingly challenging external environment, strong financial management will continue to be important to ensure that the University is able to achieve its strategic objectives in a financially sustainable manner. It is believed that the investments made by the University over recent years coupled with improvement in internal processes and systems will provide a solid base for the University to manage the risks and achieve its ambitions.

Sir Muir Russell
Principal

Professor Andrew Christie
Convener of the Finance Committee

Robert Fraser
Director of Finance

10th December 2008

CORPORATE GOVERNANCE STATEMENT

Introduction

The University Court of the University of Glasgow ("Court") is committed to exhibiting best practice in all aspects of corporate governance and complies with the practices recommended in:

- The Guide for Members of Higher Education Governing Bodies in the UK as issued by the Committee of University Chairmen;
- Corporate Governance and Statement of Responsibilities of the Governing Body as issued by the British Universities Finance Directors' Group;
- The Annual Accounts direction as issued by the Scottish Further and Higher Education Funding Council ("Scottish Funding Council").

This summary describes the manner in which Court has applied the principles set out in section 1 of the revised Combined Code on Corporate Governance issued by the London Stock Exchange in June 2006. Its purpose is to help the reader of the financial statements understand how the principles have been applied.

Statement of combined code compliance

In the opinion of the members of Court, the University complies with all the provisions of the combined code in so far as they apply to the higher education sector, and it has complied throughout the year ended 31 July 2008.

Governing body

The University's governing body is Court which met five times during the year. It has seven committees through which it conducts its business, each committee having formally constituted terms of reference. These committees are as follows:

- Finance Committee*;
- Audit Committee*;
- Remuneration Committee*;
- Human Resources Committee*;
- Nominations Committee*;
- Estates Committee*;
- Health, Safety and Environment Committee.

*Chaired by a Lay Member of Court (see Membership of Court on page 11)

Finance Committee

The Finance Committee meets five times a year and has the following remit:

- monitor the financial performance of the University and its associated legal entities;
- consider financial policies and issues and to make recommendations to Court on these matters;
- advise Court on the financial implications of policy decisions being considered;
- consider the annual financial statements of the University and its associated legal entities and make recommendations to Court thereon;
- consider the annual revenue and capital budget of the University and make recommendations to Court thereon.

Audit Committee

The Audit Committee meets four times a year, with the University's external and internal auditors in attendance. The Audit Committee advises Court on the appointment of the internal and external auditors and the auditors' remuneration. The Audit Committee has established the Strategic Risk Management Committee with a remit "to review the nature and extent of strategic level risks that face or may face the Institution including the likelihood of the identified risk occurring and to recommend an appropriate response programme to such risks".

Remuneration Committee

The Remuneration Committee makes recommendations to Court on the process of determining salary awards for senior academic and academic-related members of staff. The Principal's remuneration is determined by the Committee in the absence of the Principal. Details of the remuneration of senior post-holders for the year ended 31 July 2008 are set out in note 6 to the financial statements.

Nominations Committee

The Nominations Committee considers nominations for the co-opted vacancies in Court membership. The institution has a process in place to ensure appropriate training is given to governing body members as required.

Corporate strategy

In respect of its strategic and development responsibilities, Court receives recommendations and advice from the Senior Management Group. The Deans of the Faculties, Vice Principals and other senior officers are members of the Senior Management Group which is convened by the Principal. It meets on a monthly basis and presents a report to each meeting of Court on matters considered since Court's last meeting.

CORPORATE GOVERNANCE STATEMENT (continued)

Statement of internal control

Court is ultimately responsible for the University's system of internal control and as chief executive officer, the Principal is responsible for reviewing 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.

The Senior Management Group receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms. A key control is the Principal's Budget Briefing which takes place in May of each year. This meeting is attended by the Deans and faculty resource officers. The Budget Briefing provides a forum for the Principal and the Deans to discuss the key strategic issues within each faculty. These meetings are also attended by the Vice Principal for Strategy and Resources and senior staff from the Finance Office and the Planning Office.

The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control.

The University's internal auditors monitor the systems of internal control, risk management controls and governance processes in accordance with an agreed plan, and report their findings to management and the Audit Committee. Management is responsible for the implementation of agreed audit recommendations and the internal auditors undertake periodic follow-up reviews to ensure that such recommendations have been implemented. The Audit Committee considers summarised reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the Scottish Funding Council as they affect the University's business and monitors adherence to the regulatory requirements.

Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee and the Committee meets the internal and external auditors on their own for independent discussions.

The governing body receives regular reports from the senior management team and the Audit Committee.

The governing body is of a view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, and that it has been in place throughout the year ended 31 July 2008 and up to the date of approval of the annual report and financial statements.

Going concern

The governing body considers that the University has adequate resources to continue in operational existence for the foreseeable future.

Joy Travers
Chancellor's Assessor
10th December 2008

STATEMENT OF THE RESPONSIBILITIES OF THE UNIVERSITY COURT OF THE UNIVERSITY OF GLASGOW

In accordance with the Universities (Scotland) Acts 1858 - 1966, the Education Reform Act 1988 and the Further and Higher Education (Scotland) Act 1992, the University Court of the University of Glasgow ("Court") is responsible for the administration and management of the affairs of the University. Amongst its duties, which are summarised in a formal Statement of Primary Responsibilities, Court is required to present audited financial statements for each financial year.

Court is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Universities (Scotland) Acts 1858 - 1966, the Education Reform Act 1988 and the Further and Higher Education (Scotland) Act 1992, the Statement of Recommended Practice on Accounting for Further and Higher Education issued in 2007, and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed with the Scottish Funding Council for Further and Higher Education ("Scottish Funding Council"), Court, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, Court has to ensure that suitable accounting policies are selected and applied consistently, judgements and estimates are made that are reasonable and prudent, applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements and that the financial statements are prepared on the going concern basis unless it is inappropriate to assume that the University will continue in operation. Court is satisfied that it has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

Court has a responsibility to ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Scottish Funding Council and any other conditions which the Scottish Funding Council may from time to time prescribe. Court also has a responsibility to ensure that there are appropriate financial and management controls in place to:

- safeguard public funds and funds from other sources;
- safeguard the assets of the University;
- take reasonable steps to prevent and detect fraud;
- ensure that reasonable steps have been taken to secure the economic, efficient and effective management of the University's resources and expenditure.

The key elements in the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets and regular reviews of academic performance and quarterly reviews of financial results and forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by Court;
- comprehensive Financial Regulations detailing financial controls and procedures;
- an Internal Audit service whose annual programme is approved by the Audit Committee.

The Audit Committee, on behalf of Court, has reviewed the effectiveness of the system of internal control. 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. Court is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks that has been in place for the year ended 31 July 2008 and for the period to the date of the approval of the annual report and financial statements. This process accords with the internal control guidance as applicable to the higher education sector.

David Newall
Secretary of Court

On behalf of Court

10th December 2008

MEMBERSHIP OF COURT

Members of the University Court of the University of Glasgow ("Court") are listed below, together with an indication of the key Committees on which they serve and the expiry date of their current term of office. Employees of the University are also identified.

* Rt Hon Charles Kennedy MP	The Rector	Mar 2011	
* Mrs Joy Travers	Chancellor's Assessor	Dec 2009	(FC) (RC) (NC)
Sir Muir Russell	Principal and Vice-Chancellor	Sep 2009	(FC) (HRC) (EC) (NC) (RC)
* Councillor Jim Mackechnie	Assessor of City of Glasgow Council	Sep 2011	
* Mr Alan Macfarlane	Assessor of the General Council	Jul 2010	(HRC) (NC)
* Mr David Ross	Assessor of the General Council	Jul 2012	(RC)
* Mr David Anderson	Assessor of the General Council	Jul 2012	(HRC) (RC)
* Mr Kevin Sweeney	Assessor of the General Council	Jul 2010	(AC)
* Ms Susan Dunsmore	Assessor of the General Council	Jul 2012	
Professor Muffy Calder	Senate Assessor	Jul 2012	(HRC) (FC)
Dr Olwyn Byron	Senate Assessor	Jul 2011	(EC)
Professor Eleanor Gordon	Senate Assessor	Jul 2012	(HRC)
Dr Martin Macauley	Senate Assessor	Jul 2009	(FC) (NC)
Dr Laura Martin	Senate Assessor	Jul 2010	(HRC)
Professor Mona Siddiqui	Senate Assessor	Jul 2009	
Professor Keith Millar	Senate Assessor	Jul 2010	(EC)
Ms Susan Ashworth	Employee representative	Jan 2010	
Mr Alex Ross	Employee representative	Jul 2010	
* Professor Andrew Christie	Co-opted member of Court	Dec 2009	(FC)
* Dr Robin Easton	Co-opted member of Court	Dec 2009	(HESC)
* Mr Peter Daniels	Co-opted member of Court	Dec 2009	(FC) (EC)
* Professor Michael Scott-Morton	Co-opted member of Court	Mar 2010	
* Mrs Barbara Duffner	Co-opted member of Court	Dec 2009	(HRC)
* Mr Gavin Lee	President of the Students' Representative Council	Jun 2009	(FC)
* Mr Filippo Trevison	Assessor of the Students' Representative Council	Oct 2009	
Mr David Newall	Secretary of Court		(EC) (HRC) (NC) (HSEC)

The Committees of Court, as identified in the Corporate Governance statement are:

1. Finance Committee (FC);
2. Estates Committee (EC);
3. Human Resources Committee (HRC);
4. Audit Committee (AC);
5. Remuneration Committee (RC);
6. Nominations Committee (NC);
7. Health, Safety and Environment Committee (HSEC).

* Members of Court who receive no remuneration from the University and who are "lay members".

INDEPENDENT AUDITORS' REPORT TO THE UNIVERSITY COURT OF THE UNIVERSITY OF GLASGOW

We have audited the Group and University financial statements for the year ended 31 July 2008 which comprise the Consolidated Income and Expenditure Account, Consolidated Statement of Historical Cost Surpluses, Consolidated Statement of Total Recognised Gains and Losses, Consolidated and University Balance Sheets, Consolidated Cash Flow Statement, Reconciliation of Net Cash Flow to Movement in Net Funds and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the University Court of the University of Glasgow ("Court"), the governing body of the University. Our audit work has been undertaken so that we might state to Court those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Court as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of Court and auditors

Court is responsible for preparing the financial statements in accordance with United Kingdom Accounting Standards, the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable United Kingdom law as set out in the Statement of Responsibilities of the University Court of the University of Glasgow.

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

We report to you our opinion as to whether the financial statements give a true and fair view in accordance with accounting principles generally accepted in the United Kingdom and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

We also report to you if the University has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We are also required to report to you whether, in our opinion, funds, from whatever source, administered by the University for specific purposes have, in all material respects, been properly applied to those purposes and managed in accordance with the terms and conditions attached to them and whether income has, in all material respects, been applied in accordance with the relevant legislation and with the Financial Memorandum with the Scottish Further and Higher Education Funding Council ("Scottish Funding Council").

We read other information accompanying the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises the Operating and Financial Review, the Corporate Governance Statement, the Statement of the Responsibilities of the University Court of the University of Glasgow, and the Membership of Court. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

INDEPENDENT AUDITORS' REPORT TO THE UNIVERSITY COURT OF THE UNIVERSITY OF GLASGOW (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with accounting principles generally accepted in the United Kingdom of the state of affairs of the Group and of the University as at 31 July 2008, and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- funds from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University have, in all material respects, been applied only for the purposes for which they were received; and
- income has, in all material respects, been applied in accordance with the Further and Higher Education (Scotland) Act 1992 and, where appropriate, with the Financial Memorandum dated 1 January 2006 with the Scottish Funding Council.

Ernst & Young LLP
Registered Auditor
Glasgow
10th December, 2008

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Basis of preparation

The financial statements have been prepared under the historic cost convention, modified to include listed investments at their market value, to incorporate certain land and buildings at a revalued amount and in accordance with both the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education, and applicable Accounting Standards. The financial statements also conform to guidance published by the Scottish Further and Higher Education Funding Council.

Basis of consolidation

The consolidated financial statements consolidate the financial statements of the University Court of the University of Glasgow ("Court") and its subsidiary companies. Also consolidated are the results of the University of Glasgow Trust, an independent charity, set up to collect donations and disburse them for the benefit of the University. The financial statements do not consolidate the results of the University of Glasgow students' unions due to the degree of their independence.

Changes in accounting policy

The accounting policies have been expanded to include policy on; income recognition; heritage assets; software assets; agency arrangements; taxation; intra group transactions; contingent liabilities and contingent assets. The expanded policies are intended to give a fuller explanation of the policies that are applied in preparing the financial statements. There has been no change in policy during the financial year other than for endowments and donations, where the policy has been revised to ensure consistency with the revised SORP, issued in 2007. No prior year restatement has been required on implementation of this revised policy.

The financial statements to 31 July 2008 consolidate the assets, liabilities and results of a subsidiary company, Kelvin Nanotechnology Limited. This entity had previously been excluded from the consolidated financial statements on the grounds of materiality. The prior year comparative has been restated to allow comparability. The impact of the prior year adjustment on net assets as at 1 August 2006 and 1 August 2007 are £43k and £77k respectively being the inclusion of Kelvin Nanotechnology Limited at those dates. The impact on the results for the years ended 31 July 2007 and 31 July 2008 is to increase the surplus on continuing operations by £34k and £58k respectively.

Income recognition

Funding council recurrent block grants are accounted for in the period to which they relate.

Tuition fee income is stated net of any discounts and is credited to the income and expenditure account over the period in which the students are studying. Bursaries and scholarships are accounted for gross as expenditure and are not netted off of fee income.

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

Income received in respect of the acquisition or construction of fixed assets is treated as deferred capital grants. The grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful life of the asset at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from grants for earmarked purposes is only included to the extent of expenditure incurred on each project during the year.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Increases / decreases in value arising on the revaluation or disposal of endowment assets, ie the appreciation / depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund and reported in the statement of total recognised gains and losses.

Land and buildings

Land and buildings are stated at cost or valuation. Building costs include any internal costs associated with bringing the asset into use. Freehold land is not depreciated. Depreciation on buildings is provided using the straight line method to write off the cost or valuation of each property (other than freehold land) over its expected useful life within the range 10 years to 300 years. On an annual basis a review of assets with an estimated life of over 50 years is performed to identify indicators of impairment. For new projects, depreciation is calculated on individual elements within the total cost, each regarded as having a differing useful life. On adoption of FRS 15, the University followed the transitional provision to retain the book value of land and buildings, which were revalued in 1997 and 1999, but not to adopt a policy of revaluation on these properties in the future.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

Heritage assets

The University holds heritage assets across several locations including; the Hunterian Museum and Art Gallery, special collections within the library and archive services. Heritage assets are also held by individual departments across the University campus. It is not considered practicable to obtain valuations for the collections of artefacts owing to the diverse nature of the assets and the lack of comparable market values. The University does not therefore recognise these assets on its balance sheet.

Equipment

Equipment costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. Equipment over £10,000 per individual item is capitalised and is stated at cost. Equipment assets are depreciated over the lower of four years, or the life of the project that the equipment is associated with.

Software

Software purchases costing less than £10,000 per individual item are written off in the year of acquisition. Where software is supplied with hardware, software is not normally split out from the hardware cost and is therefore depreciated in line with the policy on equipment. Software purchases over £10,000 per individual item are capitalised and stated at cost. The capitalised cost will include the cost of any internal time required to bring the software into use, where this can be clearly attributed. Software assets are depreciated over the lower of four years, or the life of the project that the software is associated with.

Investments

Listed investments are stated at their market value on the balance sheet date. Unlisted investments, including investment in subsidiary holdings, are stated at the lower of cost or valuation. Cash on term deposit held on behalf of endowment funds is included in endowment asset investments and not within current assets. This reflects more accurately the restricted nature of cash held for endowment funds. Income from investments held for endowment funds is credited directly to these funds. Matching amounts of income and expenditure, equivalent to the expenditure actually borne by the funds during the year, are then taken to the income and expenditure statement.

Endowments and donations

Charitable donations, where the full amount of the donation is to be expended and there is no restriction to a particular objective by the donor, are treated as income in the year in which they are received.

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 of the associated tangible fixed asset.

Where the University receives a donation with the condition that the capital element must be maintained but the income thereon can be applied, the donation is accounted for as a permanent endowment. There are two main types:

- Restricted permanent endowment - the capital fund is maintained and the income must be applied to a particular objective specified by the donor;
- Unrestricted permanent endowment - the capital fund is maintained but the income thereon can be applied to the general purposes of the institution and is therefore unrestricted.

Where the trustees have the power of discretion to convert endowed capital into income, and the donation is restricted to a particular objective specified by the donor, the donation is treated as a restricted expendable endowment.

Stocks

Stocks are valued at the lower of purchase cost or net realisable value and include stocks in the refectories, the halls of residence, the farm and at certain main stores. Other stocks held in academic departments are written off to the income and expenditure account in the year in which the expenditure is incurred.

Agency arrangements

Funds the University receives and disburses as paying agent on behalf of a funding body or other body, where the institution is exposed to minimal risk and enjoys minimal economic benefit related to the receipt and subsequent disbursement of the funds, are excluded from the income and expenditure account of the institution. The balances and movement on these funds are disclosed in note 27 to the financial statements.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES (continued)

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 1988 (ICTA 1988). Accordingly the institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by s505 of ICTA 1988 or section 256 of the Taxation of Charitable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes. The institution receives no similar exemption in respect of Value Added Tax.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand and at the bank, deposits repayable on demand and bank overdrafts but excludes any assets held as endowment asset investments. Liquid resources include term deposits held as part of the University's treasury management activities but exclude any assets held as endowment asset investments.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions, contingent liabilities and contingent assets

Provisions are recognised when the University 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.

Contingent liabilities are disclosed by way of a note when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than a present asset arising from a past event.

Pensions

The University participates in a number of defined benefit pension schemes. Where the scheme is a multi-employer scheme and it is not possible to identify each participating institution's share of the underlying assets and liabilities, contributions are recognised as if it were a defined contribution scheme, being charged to the income and expenditure account in the period in which they become payable.

The University operates its own defined benefit pension scheme, the University of Glasgow Staff Pension Scheme (UGPS), which is set up under a separate trust. On the advice of an independent qualified actuary, contribution payments are made to the scheme to ensure that the scheme assets are sufficient to cover future liabilities. Pension scheme assets are measured using market value. Pension scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent terms and currency to the liability. Any increase in the present values of the liability in the scheme expected to arise from employee service in the period is charged to the income and expenditure account. The expected return on assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time are included in pension finance costs within interest payable or in pension finance income within endowment and investment income. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Leases

Expenditure on fixed assets acquired under finance leases and the related lease obligations is capitalised in so far as the costs exceed the University's capitalisation threshold.

Rental costs incurred under operating leases are charged to expenditure in equal annual amounts over the period of the leases.

Intra group transactions

Gains or losses on any intra group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

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

	Note	2008 £000	2007 (as restated) £000
Income			
Funding body grants	1	149,635	145,083
Tuition fees and education contracts	2	66,425	59,966
Research grants and contracts	3	116,840	97,630
Other income	4	54,666	52,913
Endowment and investment income	5	9,439	6,623
Total income		397,005	362,215
Expenditure			
Staff costs	6	220,695	200,537
Other operating expenses	7	153,295	140,280
Depreciation	11	16,151	15,003
Interest and other finance costs	9	-	42
Total expenditure		390,141	355,862
Surplus after depreciation of tangible fixed assets at valuation and before exceptional items			
		6,864	6,353
Exceptional items: continuing operations			
Disposal of fixed assets	10	-	9,080
Surplus on continuing operations after depreciation of assets at valuation and disposal of fixed assets			
		6,864	15,433
Surplus for the year transferred to accumulated income in endowment funds			
	14	(986)	(415)
Surplus for the year retained within general reserves			
		5,878	15,018

All items of income and expenditure arise from continuing operations

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES FOR THE YEAR ENDED 31 JULY 2008

		2008 £000	2007 (as restated) £000
Surplus for the year retained within general reserves			
		5,878	15,018
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount			
	22	5,114	3,809
Realisation of property revaluation gains of previous years			
	22	-	5,872
Historical cost surplus for the year			
		10,992	24,699

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2008

	Note	2008 £000	2007 (as restated) £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of fixed assets		6,864	15,433
Unrealised gains / (losses) on investments	22	22	(59)
(Depreciation) / appreciation of endowment asset investments	14, 21	(15,358)	8,171
New endowment bequests	14, 21	1,509	1,033
Actuarial loss in respect of pension scheme	22, 30	<u>(22,371)</u>	<u>(3,928)</u>
Total recognised (losses) / gains for the year		(29,334)	<u>20,650</u>
Prior year adjustments: For consolidation of Kelvin Nanotechnology		<u>77</u>	
Total losses since last annual report		<u>(29,257)</u>	
 Reconciliation:			
Opening reserves and endowments as previously stated		345,451	324,835
Prior year adjustments: For consolidation of Kelvin Nanotechnology		<u>77</u>	<u>43</u>
Opening reserves as restated		345,528	324,878
Total recognised (losses) / gains for the year		<u>(29,334)</u>	<u>20,650</u>
Closing reserves and endowments		<u>316,194</u>	<u>345,528</u>

BALANCE SHEETS AS AT 31 JULY 2008

	Note	Consolidated 2008	University 2008	Consolidated 2007 (as restated)	University 2007
		£000	£000	£000	£000
Fixed assets					
Tangible assets	11	433,795	433,791	417,677	417,687
Investments	13	4,404	2,735	4,569	2,726
		<u>438,199</u>	<u>436,526</u>	<u>422,246</u>	<u>420,413</u>
Endowment assets	14	<u>120,505</u>	<u>120,505</u>	<u>133,368</u>	<u>133,368</u>
Current assets					
Stock		626	547	534	466
Debtors	15	53,982	57,281	57,355	57,546
Short term investments	16	61,201	61,201	36,253	35,778
Cash at bank and in hand	16	6,030	3,401	4,591	3,182
		<u>121,839</u>	<u>122,430</u>	<u>98,733</u>	<u>96,972</u>
Less: Creditors – amounts falling due within one year	17	<u>(118,161)</u>	<u>(117,975)</u>	<u>(89,581)</u>	<u>(87,823)</u>
Net current assets		<u>3,678</u>	<u>4,455</u>	<u>9,152</u>	<u>9,149</u>
Total assets less current liabilities		562,382	561,486	564,766	562,930
Less: Creditors – amounts falling due after more than one year	18	(167)	(167)	(232)	(232)
Less: Provisions for liabilities	19	(4,780)	(4,780)	(4,770)	(4,770)
Net assets excluding pension liability		557,435	556,539	559,764	557,928
Net pension liability	30	<u>(56,393)</u>	<u>(56,393)</u>	<u>(37,302)</u>	<u>(37,302)</u>
Nets assets including pension liability		<u>501,042</u>	<u>500,146</u>	<u>522,462</u>	<u>520,626</u>
Deferred income	20	184,848	184,848	176,934	176,934
Endowment funds					
Expendable	21	22,383	22,383	24,943	24,943
Permanent	21	98,122	98,122	108,425	108,425
		<u>120,505</u>	<u>120,505</u>	<u>133,368</u>	<u>133,368</u>
Reserves					
Income and expenditure excluding pension liability	22	78,338	77,445	70,626	69,067
Pension liability	22, 30	<u>(56,393)</u>	<u>(56,393)</u>	<u>(37,302)</u>	<u>(37,302)</u>
Income and expenditure including pension liability		21,945	21,052	33,324	31,765
Revaluation reserve	22	173,744	173,741	178,836	178,559
		<u>195,689</u>	<u>194,793</u>	<u>212,160</u>	<u>210,324</u>
Total funds		<u>501,042</u>	<u>500,146</u>	<u>522,462</u>	<u>520,626</u>

The financial statements on pages 1 to 39 were approved by the University Court of the University of Glasgow on 10th December 2008 and were signed on its behalf by:

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2008

	Note	2008 £000	2007 (as restated) £000
Net cash inflow from operating activities	23	<u>34,272</u>	<u>12,609</u>
Return on investments and servicing of finance			
Income from endowments	21	4,212	3,819
Interest received	5	3,710	1,969
Interest paid	9	-	(42)
Net cash inflow from returns on investments and servicing of finance		<u>7,922</u>	<u>5,746</u>
Capital expenditure			
Endowment assets acquired and received		(38,102)	(35,082)
Receipt from the sale of endowment assets		37,961	35,958
New bequests	21	1,509	1,033
Payments to acquire tangible assets	11	(32,269)	(28,754)
Deferred capital grants received	20	17,473	19,590
Proceeds of sale of property		-	16,608
Net cash (outflow) / inflow from capital expenditure		<u>(13,428)</u>	<u>9,353</u>
Net cash inflow before management of liquid resources		28,766	27,708
Management of liquid resources			
Cash transferred to term deposits		(24,948)	(19,684)
Cash transferred to endowments	14	(1,755)	(1,789)
Increase in cash in the year	28	<u>2,063</u>	<u>6,235</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2008 £000	2007 (as restated) £000
Increase in cash in the period	28	2,063	6,235
Cash inflow of liquid resources	28	<u>24,948</u>	<u>19,684</u>
Movement in net funds in period		27,011	25,919
Net funds at 1 August	28	<u>40,093</u>	<u>14,174</u>
Net funds at 31 July	28	<u>67,104</u>	<u>40,093</u>

NOTES TO THE FINANCIAL STATEMENTS

	2008	2007 (as restated)
	£000	£000
1 Funding body grants		
Main teaching grant	82,811	81,410
Main quality research grant	40,487	37,056
Research postgraduate grant	4,861	5,150
Knowledge transfer grant	3,256	2,640
Infrastructure grants	2,609	3,703
Deferred capital grants released in the year (note 20)	3,101	2,376
Other funding council grants	12,510	12,748
	<u>149,635</u>	<u>145,083</u>
2 Tuition fees and education contracts		
Home and EU students	30,963	28,267
Overseas students	20,199	19,826
Short courses	4,576	3,774
Other fees	762	728
Research support grants	9,925	7,371
	<u>66,425</u>	<u>59,966</u>
3 Research grants and contracts		
Research councils	40,296	32,920
Charities	31,013	26,687
UK government	11,255	8,334
European commission	5,042	4,362
UK industry	23,203	19,835
Overseas	1,978	2,258
Other sources	3,255	2,643
Deferred capital grants released in year (note 20)	798	591
	<u>116,840</u>	<u>97,630</u>
4 Other Income		
Residences and hospitality services	15,756	14,792
Other services rendered	17,048	14,979
Deferred capital grants released in year (note 20)	4,171	4,213
Health authorities	3,873	3,498
Other income	13,818	15,431
	<u>54,666</u>	<u>52,913</u>
5 Endowment and investment income		
Income from expendable endowments (note 21)	787	716
Income from permanent endowments (note 21)	3,425	3,103
Endowment management fees	599	535
Income from short-term investments	3,710	1,969
Net return on pension scheme (note 30)	918	300
	<u>9,439</u>	<u>6,623</u>

NOTES TO THE FINANCIAL STATEMENTS

	2008	2007
	£000	(as restated) £000
6 Staff costs		
By expense type:		
Salaries	184,766	168,094
Social security costs	14,216	13,126
Other pension costs	21,713	19,317
	220,695	200,537
By staff category:		
Academic departments	109,629	100,222
Academic services	15,494	13,521
Research grants and contracts	53,770	46,566
Residences and hospitality services	3,105	2,901
Premises	11,691	11,391
Administration	18,203	17,487
Other	8,803	8,449
	220,695	200,537
Emoluments of the Principal:		
Salary and benefits	230	205
Contribution in respect of pensions	32	29
	262	234
	2008	2007
	Number	Number
Average full time equivalent staff members by major category*:		(as restated)
Academic departments	1,846	1,741
Academic services	567	541
Research grants and contracts	876	848
Residences and hospitality services	132	132
Premises	472	462
Administration	564	566
Other	396	367
	4,853	4,657

* Staff numbers have been calculated on an average full time equivalent basis, and the prior year comparative has been restated on a comparable basis.

NOTES TO THE FINANCIAL STATEMENTS

6 Staff costs (continued)

Remuneration of higher paid staff, including NHS merit awards, but excluding employer's pension contributions and termination payments fell within the following ranges:

	2008		2007	
	Number		Number	
	Non clinical	Clinical	Non clinical	Clinical
£70,001 - £80,000	81	10	55	13
£80,001 - £90,000	37	13	22	13
£90,001 - £100,000	20	12	18	11
£100,001 - £110,000	10	13	2	6
£110,001 - £120,000	2	5	3	8
£120,001 - £130,000	2	8	1	6
£130,001 - £140,000	3	6	1	16
£140,001 - £150,000	-	9	1	9
£150,001 - £160,000	-	7	-	4
£160,001 - £170,000	1	8	-	9
£170,001 - £180,000	-	11	-	9
£180,001 - £190,000	-	4	1	1
£190,001 - £200,000	-	5	-	5
£200,000 - £210,000	-	3	1	2
£210,000 - £220,000	-	-	-	-
£220,000 - £230,000	2	3	-	1

	2008	2007
	£000	(as restated) £000
7 Other operating expenses		
Academic departments	38,753	34,889
Academic services	9,138	8,809
Research grants and contracts	51,852	42,816
Residences and hospitality services	11,197	11,138
Premises	23,491	23,486
Administration	10,734	9,224
Agency staff	836	768
Other	7,294	9,150
	153,295	140,280

Other operating expenses include the following fees (excluding VAT) in respect of services provided to the group for:

External auditors remuneration in respect of audit services	65	66
External auditors remuneration in respect of non-audit services	12	11
Internal auditors remuneration in respect of audit services	212	171
Internal auditors remuneration in respect of non-audit services	29	-

8 Taxation

The University is recognised as a charity by HMRC. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the Taxes Act 1988 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to charitable purposes.

No tax liability arises in the year from the non charitable activities of the University.

NOTES TO THE FINANCIAL STATEMENTS

	2008	2007 (as restated)
	£000	£000
9 Interest and other finance costs		
Loans wholly repayable within five years	-	42
	<u>-</u>	<u>42</u>
10 Exceptional items: continuing operations		
Surplus on disposal of land and buildings	-	9,080
	<u>-</u>	<u>9,080</u>

The exceptional item in the year to 31 July 2007 related to the disposal of the St Andrew's campus. No exceptional events occurred during the year to 31 July 2008.

	Freehold land and buildings £000	Equipment £000	Total £000
11 Tangible assets			
<u>Consolidated:</u>			
Cost or valuation :			
As at 1 August 2007 (as restated)	702,285	52,078	754,363
Additions at cost	25,349	6,920	32,269
As at 31 July 2008	<u>727,634</u>	<u>58,998</u>	<u>786,632</u>
Depreciation :			
As at 1 August 2007 (as restated)	(294,996)	(41,690)	(336,686)
Charge for the year	(11,287)	(4,864)	(16,151)
As at 31 July 2008	<u>(306,283)</u>	<u>(46,554)</u>	<u>(352,837)</u>
Net Book Value :			
As at 31 July 2008	<u>421,351</u>	<u>12,444</u>	<u>433,795</u>
As at 31 July 2007 (as restated)	<u>407,289</u>	<u>10,388</u>	<u>417,677</u>
<u>University:</u>			
Cost or valuation :			
As at 1 August 2007	702,299	51,777	754,076
Additions at cost	25,335	6,920	32,255
As at 31 July 2008	<u>727,634</u>	<u>58,697</u>	<u>786,331</u>
Depreciation :			
As at 1 August 2007	(294,996)	(41,393)	(336,389)
Charge for the year	(11,287)	(4,864)	(16,151)
As at 31 July 2008	<u>(306,283)</u>	<u>(46,257)</u>	<u>(352,540)</u>
Net Book Value :			
As at 31 July 2008	<u>421,351</u>	<u>12,440</u>	<u>433,791</u>
As at 31 July 2007	<u>407,303</u>	<u>10,384</u>	<u>417,687</u>

NOTES TO THE FINANCIAL STATEMENTS

11 Tangible assets (continued)

Valuations were carried out in 1997 and 1999 using depreciated replacement cost, assuming replacement of buildings on the basis of equivalent reinstatement and continuation of University occupation and use. The transitional rules set out in FRS 15: Tangible Fixed Assets were applied on implementing FRS 15. Accordingly the 1997 and 1999 valuation amounts are being retained and will not be updated other than for asset disposals. The consolidated cost or valuation balance as above includes £503,375k relating to the 1997 valuation and £9,652k relating to the 1999 valuation.

Property owned by the University includes academic buildings, student residences and other associated properties including a conference centre, a sports centre and a museum and art gallery, none of which is considered to be inalienable. The University has an agreement with Glasgow Student Villages Ltd (GSV) whereby certain of the University's Halls of Residence were sold to that company with the University having a future option to repurchase the properties. The financial statements reflect the economic substance of these transactions and as such these assets are still included in the land and buildings of the University although legal title has passed to GSV. There are no other restrictions on the realisation of property except that the proceeds of sale of any building acquired with public funds must be handled in a manner consistent with the conditions of the Financial Memorandum.

Freehold land and buildings contains £19,531k (2007 - £27,739k) of assets that are under construction and have not yet received a charge for depreciation.

12 Heritage assets

It is not considered practicable to obtain valuations for the collections of artefacts defined as heritage assets, owing to the diverse nature of the assets and the lack of comparable market values. The University does not therefore recognise these assets on its Balance Sheet.

The University holds heritage assets across several locations with the main collections in the following areas:

The Hunterian Museum and Art Gallery

The University of Glasgow's Hunterian Museum and Art Gallery is Scotland's oldest public museum and is rated as one of the top museums in Scotland. The entire collection, cared for by the Hunterian Museum and Art Gallery, is fully accredited by the Museum, Library and Archive Council and is formally recognised by the Scottish Government as being a 'collection of national significance for Scotland'.

The museum is home to over a million items ranging from fossils to coins and medals. The Museum houses specific collections such as a permanent display based around the life and work of Lord Kelvin and displays dedicated to the history of medicine in Scotland which includes the eminent Scottish physician and obstetrician, William Hunter's own medical collection from the 18th century. The Hunterian Art Gallery includes works by the Scottish colourists Peploe and Cadell and a display of works drawn from the estate of the American artist James McNeill Whistler, bequeathed to the Hunterian. The Charles Rennie Mackintosh Collection is the largest single holding of his work comprising over 800 drawings, designs and watercolours.

The Anatomy Museum and Zoology Museum are also managed by the Hunterian Museum and Art Gallery. The Anatomy Collections consist of William Hunter's medical teaching material from his career and range from skeletal material to taxidermy. The Zoology Museum houses most of the major groups of animals but has particular strength in insects which constitutes 90% of the 600,000 specimens.

The only significant addition during the year was a print by Rembrandt; 'Christ Returning from the Temple' valued at £50,000. No heritage assets have been disposed of during the year.

NOTES TO THE FINANCIAL STATEMENTS

12 Heritage assets (continued)

Special Collections

The University of Glasgow's Special Collections Department is one of the foremost resources in Scotland for academic research and teaching. The collection has been built up over a period of more than 500 years and now contains more than 200,000 manuscript items and approximately 200,000 printed works, including over 1,000 incunabula (books published before 1501). The collection covers a wide range of subjects including humanities, social and economic history and the history of science and medicine. Holdings in areas such as medieval and renaissance manuscripts and emblem literature are of world importance.

The only significant addition during the year was a collection of letters relating to William Thomson, Baron Kelvin of Largs (1824 – 1907) and his brother James Thomson (1822 – 1892) which were purchased for £60,000. No heritage assets have been disposed of during the year.

Archive Services

Glasgow University Archive Services holds the official records of the University created and accumulated since its foundation in 1451, including University related records deposited by staff, alumni and associated organisations, and the records of predecessor institutions. It also manages the Scottish Business Archive consisting of collections of historical business records dating from the 18th century to the present day.

There were no significant additions or disposals during the year.

	Consolidated	University	Consolidated	University
	2008	2008	2007	2007
	£000	£000	£000	£000
13 Investments				
Treasury stock at market value	2,351	2,339	2,153	2,141
Unlisted investments at cost	68	396	73	400
Listed investments at market value	1,985	-	2,158	-
The Synergy Fund	-	-	185	185
	<u>4,404</u>	<u>2,735</u>	<u>4,569</u>	<u>2,726</u>

The University has a direct interest of 100% in both the ordinary share capital and preference share capital of GU Holdings Limited which in turn owns 100% of the ordinary share capital of the following companies:

- GU Developments Limited;
- GU Heritage Retail Limited;
- Kelvin Nanotechnology Limited;
- Gilmorehill Leaseco (1996) Limited;
- Gilmorehill Leasing Limited;
- Gilmorehill Power Management Limited;
- Dunwilco (675) Limited;
- Gilmorehill Site Developments Limited.

These companies are incorporated in the consolidated statements. In addition the University of Glasgow Trust, an independent charity set up to collect donations and disburse them for the benefit of the University generally, is consolidated in these statements.

NOTES TO THE FINANCIAL STATEMENTS

		2008	2007
		£000	£000
14	Endowment assets (Consolidated and University)		
	Balance at 1 August	133,368	123,749
	New endowments invested	1,509	1,033
	(Decrease) / increase in market value of investments	(15,358)	8,171
	Increase in cash balances held for endowment funds	986	415
	Balance at 31 July	120,505	133,368
	Represented by		
	Listed investments at market value	115,400	130,018
	Cash on hand and at bank	5,105	3,350
	Total endowment assets	120,505	133,368
		Consolidated	University
		2008	2008
		£000	£000
		Consolidated	University
		2007	2007
		(as restated)	£000
		£000	£000
15	Debtors		
	Amounts falling due within one year :		
	Research grants and contracts	26,880	26,880
	Prepayments and other sundry debtors	11,425	11,032
	Capital projects	3,685	3,685
	Salaries recoverable externally	2,973	2,973
	Courses, consultancies and contracts	3,749	3,749
	Amounts due from subsidiaries	-	3,692
		48,712	52,011
	Amounts falling due after more than one year:		
	Lease incentive	5,270	5,270
	St Andrew's campus sale	-	-
		5,270	5,270
		53,982	57,281
		57,355	57,546
16	Cash balances		
	Short term investments	61,201	61,201
	Cash at bank and in hand	6,030	3,401
		67,231	64,602
		40,844	38,960

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 2008	University 2008	Consolidated 2007 (as restated)	University 2007
	£000	£000	£000	£000
17 Creditors: amounts falling due within one year				
Research grants and contracts	41,365	41,365	33,069	33,069
Sundry creditors	12,957	12,923	9,091	9,668
Accruals and sundry provisions	45,168	45,143	32,279	30,695
Courses, consultancies and contracts	10,958	10,958	7,509	7,509
Bank overdraft	127	-	751	-
Employment cost liabilities	7,586	7,586	6,882	6,882
	<u>118,161</u>	<u>117,975</u>	<u>89,581</u>	<u>87,823</u>

The University acts as guarantor for the overdrafts of subsidiary companies which total £127k (2007 - £751k).

18 Creditors: amounts falling due after more than one year

Severance liabilities	<u>167</u>	<u>167</u>	<u>232</u>	<u>232</u>
	Funded pension liability: St Andrew's College £000	Unfunded pension liability: St Andrew's College £000	FSSU and ex-gratia pension liability £000	Total £000
19 Provisions for liabilities (Consolidated and University)				
As at August 1 2007	2,560	2,150	60	4,770
Income	56	-	-	56
Transfer from income & expenditure account	105	206	-	311
Utilised in year	<u>(151)</u>	<u>(186)</u>	<u>(20)</u>	<u>(357)</u>
As at July 31 2008	<u>2,570</u>	<u>2,170</u>	<u>40</u>	<u>4,780</u>

A valuation of the pension liability at 31 July 2008 was carried out by Mercer Limited, an independent firm of actuaries.

NOTES TO THE FINANCIAL STATEMENTS

	Deferred grants			Total £000
	Funding council £000	Other sources £000	Other deferred income £000	
20 Deferred income				
(Consolidated and University)				
As at August 1 2007 :				
Buildings	81,033	48,614	-	129,647
Equipment	6,219	1,546	-	7,765
Residences	-	-	39,522	39,522
	<u>87,252</u>	<u>50,160</u>	<u>39,522</u>	<u>176,934</u>
Income received and receivable in the year :				
Buildings	11,814	2,480	-	14,294
Equipment	1,285	1,894	-	3,179
	<u>13,099</u>	<u>4,374</u>	<u>-</u>	<u>17,473</u>
Released to income and expenditure account in the year :				
Buildings	2,261	2,302	-	4,563
Equipment	840	2,667	-	3,507
Residences	-	-	1,489	1,489
	<u>3,101</u>	<u>4,969</u>	<u>1,489</u>	<u>9,559</u>
Balance as at 31 July 2008:				
Buildings	90,586	48,792	-	139,378
Equipment	6,664	773	-	7,437
Residences	-	-	38,033	38,033
	<u>97,250</u>	<u>49,565</u>	<u>38,033</u>	<u>184,848</u>

The 'other deferred income' represents a capital sum which was received by the University in respect of an agreement with Glasgow Student Villages Ltd, a company limited by guarantee and with charitable status, which was completed in the financial year to 31 July 2002, whereby certain of the University's Halls of Residence were sold to that company. The agreement provides that the company shall operate and maintain the residences to agreed standards and that the University shall continue to market and allocate rooms to students and provide them with pastoral care. This amount will be released to the Income and Expenditure Account over the 32 year period of the agreement. The University has a future option to repurchase the properties. The financial statements reflect the economic substance of these transactions. Accordingly the tangible assets involved, £41.1m (2007 - £42.2m) are included in land and buildings. In certain circumstances a liability may arise on the University in respect of the obligations of GSV to its bankers (see note 25).

NOTES TO THE FINANCIAL STATEMENTS

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2008 Total £000	2007 Total £000
21 Endowment funds						
(Consolidated and University)						
As at 1 August						
Capital value	3,765	95,754	99,519	22,708	122,227	114,064
Accumulated income	371	8,535	8,906	2,235	11,141	9,685
	<u>4,136</u>	<u>104,289</u>	<u>108,425</u>	<u>24,943</u>	<u>133,368</u>	<u>123,749</u>
New endowments	1	922	923	586	1,509	1,033
Investment income	130	3,295	3,425	787	4,212	3,819
Expenditure	(69)	(2,106)	(2,175)	(1,051)	(3,226)	(3,404)
(Decrease) / increase in market value of investments	<u>(477)</u>	<u>(11,999)</u>	<u>(12,476)</u>	<u>(2,882)</u>	<u>(15,358)</u>	<u>8,171</u>
As at 31 July	<u>3,721</u>	<u>94,401</u>	<u>98,122</u>	<u>22,383</u>	<u>120,505</u>	<u>133,368</u>
Represented by:						
Capital value	3,288	84,629	87,917	19,972	107,889	122,227
Accumulated income	433	9,772	10,205	2,411	12,616	11,141
	<u>3,721</u>	<u>94,401</u>	<u>98,122</u>	<u>22,383</u>	<u>120,505</u>	<u>133,368</u>

In previous years endowments were analysed as general endowments and specific endowments. The revised headings above reflect the requirements of the revised SORP, issued in July 2007 and the consequent change in the University's accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

	Consolidated 2008	University 2008	Consolidated 2007 <small>(as restated)</small>	University 2007
	£000	£000	£000	£000
22 Reserves				
Income and expenditure reserve				
As at 1 August	70,626	69,067	48,464	46,209
Surplus retained for the year	5,878	6,642	15,018	15,714
Transfer from revaluation reserve	5,114	5,016	9,681	9,681
Add back pension deficit	<u>(3,280)</u>	<u>(3,280)</u>	<u>(2,537)</u>	<u>(2,537)</u>
As at 31 July	<u>78,338</u>	<u>77,445</u>	<u>70,626</u>	<u>69,067</u>
Pension liability				
As at 1 August	(37,302)	(37,302)	(35,911)	(35,911)
Actuarial loss (note 30)	(22,371)	(22,371)	(3,928)	(3,928)
Deficit retained within reserves	<u>3,280</u>	<u>3,280</u>	<u>2,537</u>	<u>2,537</u>
As at 31 July	<u>(56,393)</u>	<u>(56,393)</u>	<u>(37,302)</u>	<u>(37,302)</u>
Revaluation reserve				
As at 1 August	178,836	178,559	188,576	188,245
Transfer from revaluation reserve in respect of:				
Disposal of properties	-	-	(5,872)	(5,872)
Depreciation on revalued assets	(5,114)	(5,016)	(3,809)	(3,809)
Increase / (decrease) in market value of general investments	<u>22</u>	<u>198</u>	<u>(59)</u>	<u>(5)</u>
As at 31 July	<u>173,744</u>	<u>173,741</u>	<u>178,836</u>	<u>178,559</u>

NOTES TO THE FINANCIAL STATEMENTS

	2008	2007
	£000	(as restated) £000
23 Reconciliation of operating surplus to the net cash inflow from operating activities		
Operating surplus	6,864	6,353
Depreciation	16,151	15,003
Deferred capital grants released to income (note 20)	(8,070)	(7,180)
Deferred residences income released to income (note 20)	(1,489)	(1,489)
Change in value of investments	187	(348)
Interest payable	-	42
Interest receivable (note 5)	(3,710)	(1,969)
Endowment expenditure (note 21)	(3,226)	(3,404)
Endowment management fee (note 5)	(599)	(535)
Increase in stocks	(92)	(7)
Decrease / (increase) in debtors	3,373	(5,076)
Increase in creditors	29,139	14,329
Increase / (decrease) in provisions	10	(158)
Pension costs less contributions payable	(3,280)	(2,537)
Endowment transfer	(986)	(415)
Net cash inflow from operating activities	34,272	12,609

	2008	2007
	£000	£000
24 Capital commitments		
Consolidated and University		
Commitments contracted at 31 July	19,491	20,277
Authorised but not contracted at 31 July	9,404	11,917
	28,895	32,194

25 Contingent liability

During the financial year to 31 July 2002 the University concluded an agreement with Glasgow Student Villages Ltd (GSV) a company limited by guarantee and with charitable status, whereby certain of the University's Halls of Residence were sold to that company. The agreement provides that the company shall operate and maintain the residences to agreed standards and that the University shall continue to market and allocate rooms to students and provide them with pastoral care. The University has a future option to repurchase the properties. The financial statements reflect the economic substance of these transactions. Accordingly the tangible assets involved, £41.1m (2007 - £42.2m) are included in land and buildings. In certain circumstances a liability may arise on the University in respect of the obligations of GSV to its bankers. In the view of the University, at this time, it is unlikely that a material liability will arise in the foreseeable future.

In the year, the University accounted for European Regional Development Fund (ERDF) grant income of £0.4m (2007 - £1.0m) relating to the construction of the small animal clinic building. The grant income has been credited to deferred capital grant income on the balance sheet. The conditions of the ERDF grant stipulate that the grant can be reduced or repaid if the project is not carried out in accordance with the details in the application, or the European Grant Structural Fund's regulations. In the view of the University, it is unlikely that a material liability will arise in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

26 Post balance sheet events

There are no events subsequent to the date of the balance sheet that have any material impact on these financial statements.

	2008		2007	
	HE Childcare Fund £000	HE Discretionary Fund £000	Total £000	Total £000
27 Amounts disbursed as agent				
As at 1 August	9	21	30	2
Funds received in year	218	940	1,158	1,119
Expenditure	(122)	(954)	(1,076)	(1,108)
Virements	(81)	81	-	-
Interest	7	20	27	17
As at 31 July	31	108	139	30
		As at 1 Aug 2007 (as restated) £000	Cash Flows £000	As at 31 July 2008 £000
28 Analysis of changes in net funds				
Cash at bank and in hand		4,591	1,439	6,030
Bank overdraft		(751)	624	(127)
Sub-Total		3,840	2,063	5,903
Short term investments		36,253	24,948	61,201
Net funds		40,093	27,011	67,104

Had the cash held under endowment asset investments (note 14) been included above, the net cash inflow would have been £28.8m with net funds at 31 July 2008 of £72.2m compared to £43.4m at 31 July 2007. However to reflect more accurately the restricted nature of the cash held for endowments the University considers the exclusion of this cash from the above figures gives a fairer view of the University's net funds.

29 Disclosure of related party transactions

Due to the nature of the University's operations and the composition of the University Court of the University of Glasgow ("Court") (being drawn from local, public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of Court may have an interest. All transactions involving organisations in which a member of Court may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. In line with the Committee of University Chairmen guidance, all members of Court are required to complete a register of interests to record any areas of potential conflict with the interests of the University.

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes

The University participates in the following pension schemes:

- a) The Universities Superannuation Scheme (USS);
- b) The University of Glasgow Pension Scheme (UGPS);
- c) The Scottish Teachers Superannuation Scheme (STSS);
- d) The Strathclyde Pension Fund (SPF);
- e) The National Health Service Superannuation Scheme (NHSSS);
- f) The Federated Superannuation Scheme for Universities (FSSU).

a) USS

This is a defined benefit scheme that is externally funded and contracted out of the State Second pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom one must be a USS pension 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 trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the 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 FRS 17 "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 accounting period.

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

Standard mortality tables were used as follows:

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

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

Males	19.8 years
Females	22.8 years

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

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes (continued)

a) USS (continued)

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

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

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

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 trustees 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 are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustees recognise that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows.

However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustees have agreed to take on a degree of investment risk relative to the liabilities. This approach 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 trustees receive advice from their investment consultant and the scheme 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 trustees believe that this, together with the ongoing flow of new entrants into the scheme and the strength 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 employer contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the foreseeable future.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of the valuation. It is expected that the employer contribution rate will increase following the valuation.

The total pension cost for the institution was £15.9m (2007 - £14.5k). This includes £1.5m (2007 - £1.3m) of outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% of pensionable salaries. Employees' regular contributions were £7.8m (2007 - £7.1m) and £0.6m (2007 - £0.6m) in respect of additional voluntary contributions.

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes (continued)

b) UGPS

This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The fund is valued every three years by professionally qualified independent actuaries, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years the actuaries review the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuation of the scheme. The expected cost of providing staff pensions is recognised in the income and expenditure account on a systematic basis over the expected average remaining lives of members of the pension fund, in accordance with FRS 17: "Retirement benefits" and recognises retirement benefits as the benefits are earned and not when they are due to be paid. A full actuarial valuation was carried out at 1 April 2007 and updated to 31 July 2008 by a qualified independent actuary. The movement in assets and liabilities in the year were as follows:

	2008	2007
	£000	£000
Change in benefit obligation:		
Benefit obligation as at 1 August	207,981	185,782
Current service cost	5,271	4,451
Interest cost	11,687	9,770
Scheme participants' contributions	1,941	1,797
Actuarial (gains) / losses	(2,334)	11,797
Benefits paid	<u>(5,779)</u>	<u>(5,616)</u>
Benefit obligation as at 31 July	<u>218,767</u>	<u>207,981</u>
Change in scheme assets:		
Fair value of scheme assets as at 1 August	170,679	149,871
Expected return on scheme assets	12,605	10,070
Actuarial (losses) / gains	(24,705)	7,869
Employer contributions	7,633	6,688
Member contributions	1,941	1,797
Benefits paid	<u>(5,779)</u>	<u>(5,616)</u>
Fair value of scheme assets as at 31 July	<u>162,374</u>	<u>170,679</u>
Net amount recognised	<u>(56,393)</u>	<u>(37,302)</u>

With effect from 1 April 2008 employer contributions were 25.5% of pensionable salaries (less members' contributions). The University expects to contribute £8.9m to UGPS in 2008/09 including a discretionary additional payment of £2.2m.

The components of the pension cost are as follows:

	2008	2007
	£000	£000
Current service cost	5,271	4,451
Interest cost	11,687	9,770
Expected return on scheme assets	<u>(12,605)</u>	<u>(10,070)</u>
Total pension cost recognised in the income and expenditure account	<u>4,353</u>	<u>4,151</u>
Actuarial losses immediately recognised	<u>22,371</u>	<u>3,928</u>
Total pension cost recognised in the statement of recognised gains and losses	<u>22,371</u>	<u>3,928</u>
Cumulative amount of actuarial losses / (gains) immediately recognised	<u>16,883</u>	<u>(5,488)</u>

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes (continued)

b) UGPS (continued)

Scheme assets:

The weighted average asset allocations at year end were as follows:	2008	2007
	£000	£000
Equities	86%	89%
Bonds	10%	9%
Cash	3%	1%
Property	1%	1%
	<u>100%</u>	<u>100%</u>

To develop the expected long term return on assets assumption, the University considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio.

	2008	2007
	£000	£000
Actual return on scheme assets	(12,100)	17,939

Weighted average assumptions used to determine benefit obligations:

Discount rate	5.90%	5.60%
Inflation rate	3.60%	3.25%
Rate of compensation increase	4.60%	4.25%

Weighted average assumptions used to determine net pension cost:

Discount rate	5.60%	5.25%
Expected long term return on scheme assets	7.27%	6.62%
Rate of compensation increase	4.25%	4.00%

Weighted average life expectancy for mortality tables used to determine benefit obligations:

	2008		2007	
	Male	Female	Male	Female
Member age 65 (current life expectancy)	18.6	21.4	18.5	21.3
Member age 45 (life expectancy at age 65)	20.4	23.1	20.3	23.1

Five year history: £000

	2008	2007	2006	2005	2004
Benefit obligation at end of year	218,767	207,981	185,782	177,976	145,341
Fair value of scheme assets at end of year	162,374	170,679	149,871	130,522	105,747
Deficit	<u>(56,393)</u>	<u>(37,302)</u>	<u>(35,911)</u>	<u>(47,454)</u>	<u>(39,594)</u>

Difference between actual and expected return on scheme assets:

Amount £000	(24,705)	7,869	9,502	17,883	2,401
Percentage of scheme assets	15%	5%	6%	14%	2%

Experience gains and (losses) on scheme liabilities:

Amount £000	3,915	(400)	(86)	166	(543)
Percentage of scheme assets	2%	0%	0%	0%	0%

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes (continued)

c) STSS

Former members of the academic staff of St Andrew's College of Education are covered by STSS, which is a multi-employer defined benefits scheme. The scheme is an unfunded, contributory and voluntary membership scheme. It is not possible to identify the University's share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and contributions to the scheme are therefore accounted for 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 accounting period.

An actuarial valuation of the scheme was carried out in accordance with Regulation G4 of the Teachers' Superannuation (Scotland) Regulations (1992) by the Government Actuary's Department (GAD) as at 31 March 2001. Historically, the STSS has met only the cost of the basic pensions awarded to teachers and their dependants, with the cost of pensions' increases being met directly by the Exchequer. Under a previous agreement in 1991 it was agreed that from 31 March 2001, amongst other things, employer contributions would cover the full cost of benefits including pension increases. As a result of the 31 March 2001 valuation the employers' contribution was increased, with effect from 1 April 2007 to 13.5% of pensionable salaries. An expected increase to 14.25% of pensionable salaries from 1 April 2008 was deferred until the results of the valuation as at 31 March 2005 are known. Employees' regular contribution rose from 1 April 2007, to 6.4% of pensionable salary.

The total pension cost for the institution was £151k (2007 - £144k). This includes £12k (2007 - £13k) of outstanding contributions at the balance sheet date. Employees' regular contributions were £71k (2007 - £69k) and £15k (2007 - £15k) in respect of additional voluntary contributions.

d) SPF

Strathclyde Pension Fund covers other former members of staff at St Andrew's College of Education and the Scottish Centre for Research in Education ("SCRE"). SPF is a pool into which employees' and employers' contributions and income from investments are paid, and from which pensions and other related benefits are paid out in accordance with the provisions of the Local Government Pension Scheme. This scheme, a multi-employer defined benefits scheme covers past and present employees. It is not possible to identify the University's share of the underlying assets and liabilities of this scheme on a consistent and reasonable basis and contributions to the scheme are therefore accounted for 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 accounting period.

An actuarial valuation of the fund was carried out in accordance with Regulations 76 of the Local Government Pension Scheme Regulations (Scotland) 1998 as at 31 March 2005. The valuation results revealed a deficit of £230 million and a funding level of 97%.

As a result of the valuation, with effect from 1 April 2008, contribution rates have been reassessed and for those former St Andrew's staff that pay 5% of pensionable salary the equivalent employer contribution has been set at 15.5%, and for those who pay 6% the equivalent employer contribution has been set at 18.6%. For former SCRE staff that pay 6% contributions the equivalent employer contribution has been set at 16.8%.

The total pension cost for the University was £128k (2007 - £121k). This includes £11k (2007 - £10k) of outstanding contributions at the balance sheet date. Employees' regular contributions were £44k (2007 - £44k) and £1k (2007-£3k) in respect of additional voluntary contributions.

NOTES TO THE FINANCIAL STATEMENTS

30 Pension schemes (continued)

e) NHSSS

This is a multi-employer defined benefits scheme in which it is not possible to identify the University's share of the underlying liabilities on a consistent and reasonable basis. Contributions to the scheme are therefore accounted for as if it were a defined contribution scheme. The cost recognised within the income and expenditure account is equal to the contributions payable to the scheme for the year.

Historically the Scheme has operated on the basis that it is responsible only for the cost of the basic benefits payable to members and their dependants, with the cost of pension increase being met directly by the Exchequer.

However, from 1 April 2004, the cost of pension increase has been met by an increase in the employers' contribution rate. A full valuation of the Scheme is currently being undertaken by the Government Actuary's Department to, among other things, determine what the employers' contribution rate should be. In the interim, from 1 April 2004 the employers' contribution rate has been increased to 14% from a previous rate of 5.5%.

The total pension cost for the University was £232k (2007- £147k). This includes £38k (2007 - £29k) of outstanding contributions at the balance sheet date. Employees' regular contributions were £198k (2007 - £150k) and £21k (2007- £19k) in respect of additional voluntary contributions.

f) FSSU

FSSU is a defined benefit scheme that is not contracted out of SERPS and covers a very small number of academic staff who did not transfer to USS when it was introduced in 1975. Pension provision is by means of assurance policies, selected by the member from a panel and held in trust by the Trustees. Premiums on policies are paid annually in advance by Court, which then recovers the appropriate members' contributions by deduction from salary. Adjustments are made in respect of prepaid premiums in arriving at the charge for the year. Persons retiring or who have already retired under the scheme are entitled of right to additional benefits that may arise under the FSSU Supplementation Scheme. These additional benefits are unfunded and are paid direct to retired members by Court. Full provision has been made in the year for the actuarial valuation of the liabilities of this scheme. As at the balance sheet date there remains one contributing member to this scheme.

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