University of Glasgow

Reports and Financial Statements

for the year to 31 July 2012

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OPERATING AND FINANCIAL REVIEW
for the year ended 31 July 2012

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 2012 ("2011-12"). It has been prepared in line with the guidance provided on the Operating and Financial Review issued by the UK Accounting Standards Board in January 2006.

History
The University 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 father of economics Adam Smith to the eminent scientist Lord Kelvin. Building on such vast experience, the University is a member of the elite Russell Group of 24 major research universities and is in the top 1% of the world's universities today.

Principal operations
Study and research are grouped into four Colleges which are made up of broadly related Schools and Research Institutes. The Colleges are:

- College of Arts;
- College of Medical, Veterinary and Life Sciences;
- College of Science and Engineering;
- College of Social Sciences.

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 15,700 undergraduate students, 5,300 postgraduate students and 5,000 adult learners. Finding community within diversity, the University attracts students from more than 100 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 and Procedures. Resolutions are issued by the University Court of the University of Glasgow ("Court") after consultation with the University. Procedures are as determined by Court. In a few 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, membership and corporate governance arrangements is detailed within these reports and financial statements.

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 University's proper use of funds.

A Global Vision
In 2010 the University published "Glasgow 2020 – A Global Vision", which set out the vision of the University, which is to enhance its position as one of the world's great, broad based, research intensive universities. The University's mission is to undertake world leading research and to provide an intellectually stimulating learning environment thus delivering benefits to culture, society and the economy. The strategy breaks down into three main themes which are as follows:

> **Focus** - The University will focus on the needs of students and research funders and will ensure that investments align with strategic priorities. The University will also streamline its systems and processes to remove duplication of effort and minimise bureaucracy. When combined, these actions will lead to a sustainable academic profile;
>
> **Global Reach** - The University will extend its global reach to become a more international university: developing a multicultural community of students and staff; providing an educational experience that prepares students for global, political and social environments; developing international alliances and partnerships to build capability and capacity in research, education and enterprise; introducing postgraduate degree programmes that have demand in the international market; and raising the profile and reputation of the University globally;
>
> **Multi-disciplinarity** – The University will foster multi-disciplinary activity through the support and development of networks of researchers, creating world-leading thematic multidisciplinary research institutes aligned to the strategic needs of the University's research funders. The University will also establish innovative, interdisciplinary degree programmes, primarily at the postgraduate level, that combine elements from the breadth of the University's research strengths.

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
The strategic plan includes 20 quantitative key performance indicators ("KPIs") that are being used to measure how the University performs against its objectives. Over the last 12 months, there has been positive progress against 12 of the KPIs, deterioration in performance in 7 and no change in 1 other. In general, those KPIs that saw a deterioration in 2011-12 are still ahead of their value at the beginning of the current strategic planning period.

General improvement in the range of KPIs has also been reflected in the University's position in the UK and Global league tables. In the four domestic league tables published in 2012 (The Guardian, The Independent, The Sunday Times and The Times), the University's position improved by between 1 and 7 places and the University is now ranked between 14th and 19th in the UK. Glasgow fell to 139th in the world in the THE international league table, but the QS global league table placed it at 54th, the highest position the University has ever obtained in a global league table.

OPERATING AND FINANCIAL REVIEW
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Teaching
The University's commitment to teaching and learning excellence has been demonstrated by the results of the 2012 National Student Survey (NSS), which showed 89% satisfaction among final year students. This was a small drop from the 90% recorded in the 2010 and 2011 surveys and ranks the University 17th equal amongst the UK's universities. Impressively, the University was ranked 1st in student satisfaction in 7 of the 40 subjects surveyed. This result is due to the commitment of the University's staff and the impact of significant investment made in the learning environment. Although pleased with the result the University is not complacent. The headline 89% satisfaction figure is a summary of a complex range of issues important to students reflected in 22 questions contained in NSS. Encouragingly the University has seen improvement for the second consecutive year in the 5 questions related to assessment and feedback and scores very highly in 4 questions related to teaching on the course. The University continues to work on improving the student experience, particularly on the teaching infrastructure.

The University has implemented an externally developed student record system aimed at supporting students from application through matriculation and study, to their lives as alumni. The system went "live" at the beginning of the 2011-12 academic year. Following initial difficulties, enhancements were made to the system during the year that have served to enhance the student experience and improve the efficiency of "back office" functions.

The University met its home undergraduate recruitment target for 2011-12. Overall taught postgraduate numbers were disappointingly flat after growth of 18% and 10% in the previous two years. Although there was growth in postgraduate students from outside the EU, this was offset by a drop in students from the UK and EU.

Applications for undergraduate study in 2012-13 grew by 6%. The level of applications represents, on average, more than 7 applications for every available undergraduate place. The 6% growth came from three markets (Scotland, EU and outside the EU) partly offset by a small decline in applications from the rest of the UK. There was particularly strong growth in applications from EU students (27%). The decline in applications from the Rest of the UK (-4%) was seen across most of the UK's HE sector. This is seen as a response to the increase in fee levels for these students that will occur from September 2012. The sector will then be able to charge up to £9,000 per year in fees. Given the usual extra year in course length in Scotland with respect to the rest of the UK, the University set its fee level for all non-clinical courses at £6,750 (£9,000 for clinical courses) thus making the total fee for a degree at the University equivalent to a University in England, Northern Ireland or Wales that set its fees at £9,000/annum. The University will continuously review its fee policy as the new fees regimes across the UK mature and the impact on application and acceptance rates becomes clearer.

Applications to postgraduate taught programmes for 2012 entry increased by 20% over 2011, following increases of 20%, 35%, and 42% in the previous three years. Growth is almost equally spread between UK/EU and non-EU students. This is encouraging given the drop in acceptances by UK/EU postgraduate taught students for 2011-12 entry. 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.

Research
The results of the latest national Research Assessment Exercise ("RAE") were published in December 2008. The University performed well, having submitted to 48 of the 67 subject areas of the RAE. This was one of the broadest submissions in the UK. 18 of the submissions were ranked in the UK's top 10 and 14 were rated best in Scotland. Over 75% of staff submitted to the RAE had their research classified as being either world leading or internationally excellent. Overall the University was ranked 14th in the UK in Research Fortnight's Research Power Table. The rankings will not be modified until the next research assessment is conducted, through the new Research Excellence Framework. Any results will not be known until 2014 at the earliest.

Spend on research grants dropped by 0.9% reflecting the tightening of the funding available from major sponsors. There are encouraging signs that the value of grants awarded, but yet to commence, are beginning to increase. This is primarily due to the ability of the University to be able to invest in attracting high quality established researchers to the University. In addition studentship and fellowship schemes, many of which are supported by external fundraising, continue to attract research students and early career researchers to the University.

Applications for research postgraduate study commencing in 2012-13 grew by 62% over 2011-12 following an increase of 33% the previous year.

Internationalisation
The University has seen a significant increase in students from outside the EU over the past few years, increasing again by 20% in 2011-12. There continues to be strong growth in applications for entry in 2012-13. This reflects the efforts put into marketing and the promotion of a wide range of international activities including the establishment of recruitment and marketing offices in India and China during 2011-12.

The University continues its partnership with Glasgow International College ("GIC") to offer academic skills and English language courses that prepare international students for entry to the University's undergraduate and postgraduate programmes.

The University's international student community has shown its satisfaction with the quality of education and support available at the University, recording very impressive results in the 2012 International Student Barometer. According to the survey, the University's international students are the most satisfied in the Russell Group of the UK's research intensive universities that took part in the survey.

OPERATING AND FINANCIAL REVIEW
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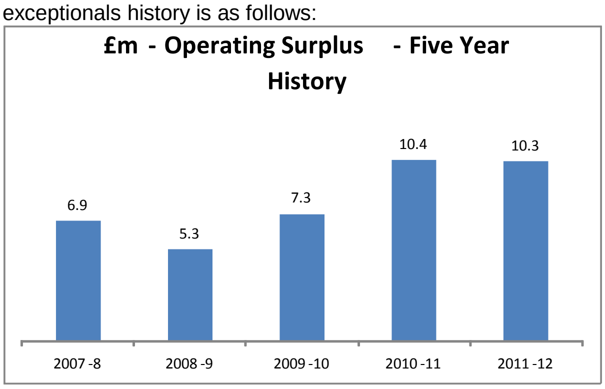
Income and expenditure
The University enjoyed another successful year financially as follows:

	2012	2011
	£000	£000
Total income	439,839	450,195
Total expenditure	429,514	439,759
Surplus after depreciation of tangible fixed assets at valuation before exceptional items	10,325	10,436
(Loss)/Surplus on disposal of assets	(480)	800
Other items	(1,363)	(1,425)
Surplus for the year retained within general reserves	8,482	9,811

The operating results continue the positive trend set in recent years following a decade of operating deficits.

The five year operating surplus after depreciation and before exceptionals history is as follows:



Total income decreased by 2.3% in the year with the main movements as follows:

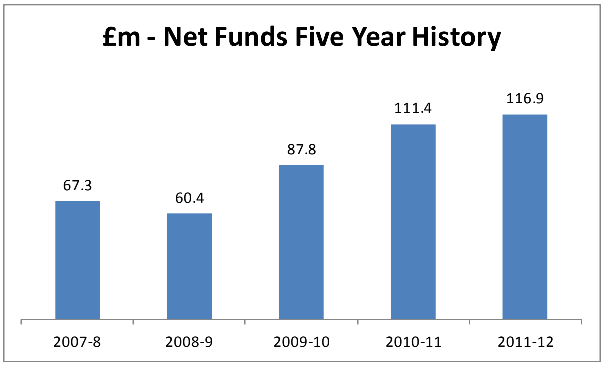
- Income from the Scottish Funding Council fell by 6.6% mainly caused by a reduction in main teaching grant;
- Income from tuition fees and education contracts grew by 5.9%. The largest movement was in overseas students, with income growing by 19.1% following a 28.9% increase in 2010-11;
- Income from research grants and contracts fell by 2.9% in the year (2010-11 decline was 0.9%). Research council income fell by 7.2% (2010-11 fell by 9.6%);
- Other income fell 3.1%. Other services rendered fell by 2.9%. Residences and hospitality services income grew by 1.8% in the year;
- Endowment and investment income increased by 3.4% which follows a 21.7% increase in 2010-11. This was primarily due to higher returns on investment funds during the year.

Total expenditure fell by 2.3% in the year with the main movements as follows:

- Staff costs fell by 7.8% including voluntary severance costs. Staff costs excluding voluntary severance costs have fallen by 4.7%. Headcount decreased by 4.5% in the year and there was a 3.4% decrease in salary levels following the Voluntary Severance scheme;
- Other operating expenses increased by 6.5% with the largest growth in academic services (28%) due to investment in Library consumables. Costs within administration and other central services increased by 18%.

Net funds and cash flow
Net funds increased in the year by £5.5m to a closing balance of £116.9m at 31 July 2012.

The five year net funds history is as follows:



The main cash inflows were from operating activities (+£13.6m) and return on investments and servicing of finance (+£6.4m). £3.4m of the cash inflow from operating activities related to a reduction in working capital.

Capital expenditure for the year was £22.8m which was £1.3m lower than 2010-11. Capital commitments authorised but not yet contracted increased by £33.7m in the year to £54.9m at the balance sheet date.

FRS 17 pension liability
The FRS 17 pension liability for the University of Glasgow Pension Scheme and the Strathclyde Pension Fund has increased in the year from £56.6m to £122.5m. This adverse movement reflects the impact of falling gilt yields in the year.

Investment performance
The past financial year saw an overall deterioration in value of global stock markets offset by new bequests received during the year and this is reflected in an increase in the value of endowment asset investments from £128.1m to £129.5m. The performance of the fund managers continues to be monitored by the Investment Advisory Committee against targets set by the committee and reviewed regularly.

Creditor 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 2012 the University's outstanding payments represented approximately 48 days purchases. This is a decrease from 49 days in 2011.

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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 non endowment cash balances of the University can be invested in temporary cash deposits with the major UK clearing banks, building societies and UK registered money market funds up to a maximum of thirty million pounds with any one institution. The institution must be rated at a minimum of A- (as per Standard and Poor's long term rate) with money market funds at a minimum of AA- rated. Up to a maximum of twenty five million pounds can be invested with non UK registered banks and money market funds. The institution must be rated at a minimum of A- (as per Standard and Poor's long term rate) with money market funds at a minimum of AA- rated. This is for a maximum of three months per deposit. 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 2011-12.

Accounting policies
The University financial statements have been prepared in accordance with the Statement of Principal Accounting Policies as set out on pages 12 to 14. The principal accounting policies are in accordance with the Statement of Recommended Practice for Higher Education ("SORP") issued by Universities UK in 2007. 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 all relevant external legislation. 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. The University's approach is set out in the Socially Responsible Investment Policy which was approved by Court in October 2009. 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 direct investment in the tobacco industry is prohibited as such an investment runs entirely counter to the University's direct interests in research. It is the role of the Investment Advisory Committee to maximise the potential returns on investments within such restrictions as established by Court.

Future developments and principal risks and uncertainties
In 2010-11, anticipating significant cuts in public funding, the University reduced its headcount by over 3% between 2010-11 and 2011-12. The substantial cut to the core grant from the Scottish Funding Council (SFC) in 2011-12 of over £10m has been reversed for 2012-13. The combination of a reduction in headcount, reversal of cuts in the SFC grant and continued strong growth in international student fees has allowed the University to produce a substantive investment plan for 2012-13 and 2013-14. This will enable the University to develop new areas of research strength and to support existing areas through appointment of new staff and development of infrastructure. This investment will strengthen the University's submission to the 2014 Research Excellence Framework undertaken by the UK's four Higher Education Funding Councils. Investment will also be made in teaching infrastructure to continue to improve the student experience and maintain the University's position at the top end of student satisfaction surveys.

During 2011-12, in return for the increased financial settlement to the HE sector, the Scottish Government indicated that it expected the SFC to ensure that improved outcomes are delivered by universities across the following areas: retention, articulation from college, accelerated degrees, access to university for people from the widest possible range of backgrounds, international competitiveness in research, University/industry collaboration in research, pattern and spread of provision, efficiency in the learning journey and of institutions, and entrepreneurial and employability skills of graduates. In response, the SFC has initiated the development of "outcome agreements" with each university describing how the Scottish Government priorities will be delivered. Each outcome agreement contains targets that will allow the SFC to detail and report improvements back to the Scottish Government. For academic year 2012-13, the SFC has focussed outcome agreements on the following areas: knowledge exchange, coherent provision and widening access. The remaining priorities will be negotiated in 2013-14. The majority of the Scottish Government priorities align well with the University's current strategic plan, however additional investment may be required in some areas to ensure appropriate outcome agreement targets can be delivered.

From the academic year 2012-13 Scottish Universities are able to charge students from England, Northern Ireland and Wales up to £9,000 a year. Universities across Scotland have responded in a number of ways. The University of Glasgow decided to charge fees of £9,000 per year for medicine, dentistry and veterinary medicine and £6,750 per year for all other subjects. Early indications are that acceptances by students from England, Northern Ireland and Wales have

OPERATING AND FINANCIAL REVIEW
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dropped slightly with concomitant financial implications. The new fees regimes in the four home countries will impact on recruitment over the next few years, in ways that are not yet easy to determine. The University will continue to monitor its fee levels and their impact on recruitment when compared to peer institutions.

The University has recently acquired 10, and is negotiating to purchase a further 4, acres of land immediately adjacent to the main campus in the west end of Glasgow from the Greater Glasgow Health Board (GGHB). The site currently houses an operational general hospital and was immediately leased back to the GGHB for a nominal rent until 31 March 2017 at the latest. It is expected however that the GGHB will vacate the site sometime in 2016 when the new South Glasgow Hospital is opened. The site will eventually provide space to enable the whole academic estate to be reconfigured and made fit for purpose for academic activity, thus improving the student experience, research performance and staff satisfaction. Whilst this site is being planned and developed it is essential that investment continues in other parts of the University's estates.

Recent income growth has depended upon double digit growth in students from outside the EU. Maintaining this growth against a background of increased international competition, regulations of the UK Border Agency and the UK Government's desire to restrict immigration is a significant risk.

Prediction and control of staff costs are expected to provide challenges over the next few years with recent and near future increased below headline inflation, and a growing deficit in pension schemes.

Although the risk profile creates a number of challenges, the University is currently in a strong financial position. This coupled to the capacity, and continuing ability, to recruit additional international and postgraduate students saw the University deliver an operating surplus for the seventh consecutive year whilst maintaining a healthy net funds balance.

Summary

The University has made good progress in recent years towards its strategic ambitions whilst ensuring that its underlying finances continue to increase in robustness and sustainability. Reduction in the underlying cost base in 2010-11, coupled with a favourable settlement for the sector in the 2011 Scottish Government Spending Review have decreased the risk profile. However the changing fee regime for UK students, SFC outcome agreements, increasing pension deficits and the UK Government's desire to further restrict immigrations mean that significant challenges and opportunities still lie ahead. The University's Senior Management Group assesses the strategic risks that the University faces at each monthly management meeting and identifies and executes appropriate mitigation plans. Court continues to emphasise that strong financial management is essential and that this should be achieved whilst ensuring that progress is made towards the aspirations set out in the strategic plan.

Professor Anton Muscatelli
Principal

Ken Brown
Convenor of Finance Committee

Robert Fraser
Director of Finance

CORPORATE GOVERNANCE STATEMENT
31 July 2012 - continued

Introduction
The University Court of the University of Glasgow ("Court") is committed to exhibiting best practice in all aspects of corporate governance relevant to the higher education sector.

This summary describes the manner in which Court has applied the principles of the revised Combined Code on Corporate Governance issued by the Financial Reporting Council in 2008. In addition due regard has been taken of the Turnbull Committee guidance on internal control as amended by the British Universities Finance Directors Group in its 2006 guidance, the Guide for Members of Higher Education Governing Bodies in the UK as issued by the Committee of University Chairmen in 2009 and the Annual Accounts direction as issued by the Scottish Funding Council. Its purpose is to help the reader of the reports and 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 2012.

University governance
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 three main statutory bodies in the governance of the University - Court, the Senate and the General Council.

Court
The University's governing body is Court. Its powers have been defined over a number of years, commencing in 1858, when Court was first established, and are set out in a series of Acts of Parliament, the Universities (Scotland) Acts, 1858-1966. These Acts are supplemented by sections of other Acts and certain Ordinances, promulgated by the University and approved by the Monarch in Council. Ordinances have been enacted to extend the powers available to Court, or to clarify the powers which Court believes it has but which are not explicit in the Acts.

Court has ultimate responsibility for the deployment of resources in the University, and for the strategic plans of the institution. It does not normally generate proposals, but receives them from other bodies within the University - most notably the Senate and the Senior Management Group. It also has a monitoring role in relation to the overall performance of the University, and it holds the Principal accountable for the effective and efficient management of the University. With the Senate, it is responsible for the well-being of students and for the reputation of the University. It is also responsible for the well-being of staff.

Court has 25 members and consists of the Rector (who is elected by the student body), the Principal, the Chancellor's Assessor, a representative of Glasgow City Council, five assessors elected by the General Council, seven assessors elected by Senate, two employee representatives, the President of the Students' Representative Council, one assessor elected by the Students' Representative Council, and five co-opted members. Court members who are not members of the University staff or student body are referred to as "lay members". The current composition reflects the University's wish to have the appropriate level of expertise needed to govern a modern Higher Education institution. The Rector is the 'ordinary president of Court' in terms of the 1858 Act. Court's standing orders reflect its agreement that the Rector shall chair such parts of Court meetings as Court may decide, and that the Convenor of Court shall chair the other parts of those meetings. The Convenor is chosen from among the lay members. Meetings of Court are held five times a year.

Court conducts its business through seven committees, each having formally constituted terms of reference.

The **Finance Committee** monitors the financial performance of the University and its associated legal entities. It considers financial policies and issues and makes recommendations to Court on these matters having regard to the importance of financial sustainability. It also considers the reports and financial statements and revenue / capital budgets of the University and its associated legal entities and makes recommendations to Court thereon. The Committee is chaired by a lay member of Court and normally meets five times a year.

The **Audit Committee** oversees the arrangements for external and internal audit of the University's financial and management systems and of activities and processes related to these systems. The Committee is chaired by a lay member of Court and normally meets four times a year, with the University's external and internal auditors in attendance.

The **Remuneration Committee** makes recommendations to Court on the process of determining salary awards for senior staff and will determine the Principal's remuneration in the absence of the Principal. Details of the remuneration of senior post-holders for the year ended 31 July 2012 are set out in note 6 to the financial statements. The Committee is chaired by the Convenor of Court.

The **Human Resources Committee** develops policies required to implement the University's human resources strategy and will make recommendations to Court thereon. The Committee will also review the implementation of policy and raise awareness throughout the University of the importance that senior management place on human resource issues. The Committee is chaired by a lay member of Court.

The **Nominations Committee** makes recommendations to Court on co-opted members and on the chairmanship of Court Committees having regard to the skills and experience required. The institution has a process in place to ensure appropriate training is given to governing body members as required. The Committee is chaired by the Convenor of Court.

The **Estates Committee** develops and maintains strategic estate plans for consideration by Court taking into account academic need, resource implications and the importance of environmental sustainability. The Committee is chaired by a lay member of Court.

The **Health, Safety and Wellbeing Committee** provides a forum within which consultation and discussion may take place between representatives of University management and representatives of staff and students on health, safety and wellbeing matters. The Committee will also make representations and recommendations to Court as required. The Committee is chaired by the Secretary of Court.

In respect of its strategic and development responsibilities, Court receives recommendations and advice from the **Senior Management Group**. The Heads of College, 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
31 July 2012 - continued

The Senate
Senate is the senior academic body of the University and, subject to the powers of the Court, is responsible for the academic activity of the University and the maintenance of academic standards. Senate has over 500 members drawn principally from the University's academic staff.

The General Council
The General Council comprises the graduates of the University and has a statutory right to comment on matters which affect the well-being and prosperity of the University.

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 Heads of College and College resource officers. The Budget Briefing provides a forum for the Principal and the Heads of College to discuss the key strategic issues within each College. These meetings are also attended by the Vice Principal for Strategy and Resources and senior staff from the Finance 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.

Court receives regular reports from the Audit Committee.

Court 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 2012 and up to the date of approval of the annual reports and financial statements.

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

David CH Ross
Convenor of Court
12 December 2012

STATEMENT OF THE RESPONSIBILITIES OF COURT

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, 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 (United Kingdom Generally Accepted Accounting Practice). 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 and to 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 2012 and for the period to the date of the approval of the reports 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
12 December 2012

MEMBERSHIP OF COURT AND COMMITTEES

Members of Court who served during the period to 31 July 2012 are detailed below, as are members who served up to the date of approval of the reports and financial statements. Also shown is an indication of the Committees on which the members served, the expiry date of their current term of office and whether they are lay members of Court.

	Expiry date	Committee Membership	Lay Member
The Rector			
Rt Hon Charles Kennedy MP	(Feb 2014)		*
The Principal and Vice-Chancellor			
Professor Anton Muscatelli	(Sep 2019)	(FC) (HRC) (EC) (NC) (RC)	
The Chancellor's Assessor			
Mr Murdoch MacLennan	(Dec 2013)		*
Assessor of City of Glasgow Council			
Councillor Jim Mackechnie	(May 2012)		*
Councillor Matthew Kerr (from Jul 2012)	(May 2017)		*
General Council Assessors			
Mr Alan Macfarlane	(Jul 2014)	(HRC) (NC)	*
Mr David Ross	(Jul 2016)*	(FC) (RC) (NC)	*
Mr David Anderson	(Jul 2016)	(HRC) (RC)	*
Mr Kevin Sweeney	(Jul 2014)	(AC)	*
Ms Susan Dunsmore	(Jul 2012)		*
Mr Brian McBride (from Aug 2012)	(Jul 2016)		*
Senate Assessors			
Professor Christine Forde (from Oct 2012)	(Jul 2016)	(HRC from Oct 2012)	
Dr Marie Freel (from Apr 2012)	(Jul 2016)	(EC from Aug 2012)	
Professor Eleanor Gordon	(Jul 2012)	(HRC)	
Dr Alan Owen	(Jul 2013)	(HRC) (NC)	
Dr Gordon Hay	(Feb 2012)	(EC)	
Professor Miles Padgett (from Oct 2011)	(Jul 2015)	(FC)	
Professor Adrienne Scullion	(Jul 2013)	(FC)	
Dr Donald Spaeth (from Oct 2011)	(Jul 2015)	(HRC; EC from Feb 2012 to Aug 2012)	
Professor William Martin	(Jul 2013)	(EC)	
Employee Representatives			
Ms Susan Ashworth	(Jan 2014)		
Mr Alex Ross	(Jul 2012)		
Ms Margaret Anne McParland (from Aug 2012)	(Jul 2014)		
Co-opted Members of Court			
Dr Robin Easton	(Dec 2013)	(HSWC) (NC)	*
Mr Peter Daniels	(Dec 2013)	(FC) (EC)	*
Professor Michael Scott-Morton	(Mar 2014)		*
Mr Ken Brown	(Dec 2013)	(FC) (RC)	*
Ms Margaret Morton	(Dec 2013)	(EC)	*
President of the Students' Representative Council			
Mr Stuart Ritchie	(Nov 2011)	(FC) (EC)	
Ms Amy Johnson (Vice President) (from Nov 2011)	(Jun 2012)	(FC) (EC)	
Mr James Harrison (from Jul 2012)	(Jun 2013)	(FC) (EC)	
Assessor of the Students' Representative Council			
Mr Matt Morrison	(Oct 2011)		
Mr Kenneth Law (from Nov 2011)	(Oct 2012)		
Mr Donald Mackay (from Nov 2012)	(Oct 2013)		
Secretary of Court			
Mr David Newall		(EC) (HRC) (NC) (HSWC)	

The Committees of Court, as identified in the Corporate Governance statement are:
Finance Committee (FC);
Estates Committee (EC);
Human Resources Committee (HRC);
Audit Committee (AC);
Remuneration Committee (RC);
Nominations Committee (NC);
Health, Safety and Wellbeing Committee (HSWC).

*Mr David Ross is also Convenor of Court, an appointment that will run until December 2013.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES
Continued

We have audited the financial statements of the University of Glasgow for the year ended 31 July 2012 which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, the Consolidated Statement of Historical Cost Surpluses, Consolidated Statement of Total Recognised Gains and Losses, Consolidated and University Balance Sheets, Consolidated Cash Flow Statement and the Reconciliation of Net Cash Flow to Movement in Net Funds and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the University Court of the University of Glasgow ("Court"), as a body, in accordance with the Financial Memorandum of the University; and in accordance with section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulations 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the 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 the University Court and auditor

As explained more fully in the Statement of the Responsibilities of Court (set out on page 9), Court is responsible for preparing the financial statements and for being satisfied that they give a true and fair view. We have been appointed as auditors under the Financial Memorandum of the University and also under section 44(1) (c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Court; and the overall presentation of the financial statements.

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 Funding Council.

In addition, we read all the financial and non financial information contained in the Operating and Financial Review, Corporate Governance Statement and Statement of the Responsibilities of Court and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of affairs of the University and of the Group as at 31 July 2012 and of the surplus of the Group's income over expenditure and the Group's cash flows for the year then ended;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

Opinion on other matters prescribed by applicable regulations

In our opinion:

- 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 with the Scottish Funding Council.

Matters on which we are required to report by exception

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

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

Ernst & Young LLP
Registered auditor
Glasgow
12 December 2012
Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES
Continued

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 Funding Council.

Basis of consolidation
The consolidated financial statements consolidate the financial statements of the University of Glasgow, its subsidiary companies and unincorporated undertakings. 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.

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 from 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.

An appreciation or depreciation in value arising on the revaluation or disposal 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. The appreciation or depreciation is also 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. Assets under construction are not depreciated until they become available for operational use. 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.

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

Repairs and maintenance
Maintenance expenditure is recognised in the income and expenditure account in the period it is incurred. The University has a planned maintenance programme, which is reviewed on an annual basis.

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.

It has not been possible to obtain reliable information on the cost or valuation of the collections held within the Hunterian Museum and Art Gallery, Special Collections and Archive Services. It is not considered practicable to obtain valuations for the artefacts defined as heritage assets owing to the diverse nature of the assets held, the number of assets held, the lack of comparable market values and the prohibitive cost associated with obtaining valuations. The University does not therefore recognise these assets on the Balance Sheet. In accordance with FRS 30 “Heritage Assets”, recent and future acquisitions which meet the definition of a heritage asset, not held for the University’s core purpose of teaching and research, are recognised at cost where the object is purchased or at an appropriate value where the object is donated. The threshold for capitalisation is £25k. Subsequent gains or losses on revaluation are recognised in the statement of total recognised gains and losses. Where it is not practicable to obtain a valuation, details of such significant donations will be disclosed.

Expenditure which is required to preserve or clearly prevent further deterioration of individual collection items is recognised in the income and expenditure account when it is incurred. The heritage assets are deemed to have indeterminate lives and therefore it is not considered appropriate to charge depreciation.

Further information on the collections and details of the University’s management policy in respect of heritage assets is summarised in Note 12.

Equipment
Equipment costing less than £25k per individual item or group of related items is written off in the year of acquisition. Equipment over £25k per individual item or group of related items is capitalised and is stated at cost. Equipment assets are depreciated on a straight line basis over the estimated useful life of the asset at between three and ten years or the life of the project with which the equipment is associated, if that is shorter. Where equipment is acquired for research purposes and is funded with the aid of a specific grant then it is capitalised and depreciated as above, except that the minimum value is £50k. Depreciation will commence in the year that the equipment is commissioned.

Software
Software purchases costing less than £25k per individual item are written off in the year of acquisition. Where software is

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES
Continued

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 £25k 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 on a straight line basis over the estimated useful life of the assets at between three and ten years or the life of the project with which the software is associated, if that is shorter. Depreciation will commence in the year that the software is commissioned.

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. Short term investments are amounts held on deposit realisable more than one day. 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.

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.

Taxation
The University is a charity within the meaning of Part 1, chapter 2, s7 of the Charities and Trustee Investment (Scotland) Act 2005 and is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly the Institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA 2009 and sections 471, and 478-488 CTA 2010 (formerly s505 of ICTA 1988) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.
The institution receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.
The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

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, being short term investments, 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. For the University of Glasgow Pension Scheme and the Strathclyde Pension Fund, the expected cost of providing pensions is recognised in the income and expenditure account on a systematic basis over the expected average lives of members of the funds. 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. The expected return on assets and the increase during the period in the present value of the schemes' liabilities arising from the passage of time are included in pension finance costs within

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES
Continued

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.

For the other multi-employer schemes that the University participates in, it is not possible to identify each participating institution's share of the underlying assets and liabilities. Contributions are therefore recognised as if they were defined contribution schemes and are charged to the income and expenditure account in the period in which they become payable.

Leases

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The assets are included in fixed assets (in so far as the costs exceed the University's capitalisation threshold) and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

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 2012

	Note	2012 £000	2011 £000
Income			
Funding body grants	1	**143,891**	154,187
Tuition fees and education contracts	2	**99,604**	94,088
Research grants and contracts	3	**124,351**	128,047
Other income	4	**65,041**	67,149
Endowment and investment income	5	**6,952**	6,724
Total income		**439,839**	450,195
Expenditure			
Staff costs	6	**233,221**	252,987
Other operating expenses	7	**177,321**	166,546
Depreciation	11	**18,356**	19,172
Interest and other finance costs	9	**616**	1,054
Total expenditure		**429,514**	439,759
Surplus after depreciation of tangible fixed assets at valuation and before exceptional items		**10,325**	10,436
Exceptional items	10	**(480)**	800
Surplus on continuing operations after depreciation of assets at valuation and disposal of fixed assets		**9,845**	11,236
Surplus for the year transferred to accumulated income in endowment funds	14	**(1,363)**	(1,425)
Surplus for the year retained within general reserves		**8,482**	9,811

All items of income and expenditure arise from continuing operations

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES
for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Surplus for the year retained within general reserves		**8,482**	9,811
Difference between historical cost depreciation and the actual charge for the period calculated on the re-valued amount	22	**3,396**	3,909
Realisation of property revaluation gains of previous years	22	**408**	-
Historical cost surplus for the year		**12,286**	13,720

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of fixed assets		**9,845**	11,236
Unrealised gains on investments	22	**182**	282
(Depreciation) / appreciation of endowment asset investments	14, 21	**(3,477)**	7,798
New endowment bequests	14, 21	**3,466**	1,708
Actuarial (loss) / gain in respect of pension schemes	22, 30	**(66,978)**	8,741
Total recognised (losses) / gains for the year		**(56,962)**	29,765
Reconciliation:			
Opening reserves and endowments		**342,680**	312,915
Total recognised (losses) / gains for the year		**(56,962)**	29,765
Closing reserves and endowments		**285,718**	342,680

BALANCE SHEETS
as at 31 July 2012

	Note	Consolidated 2012 £000	University 2012 £000	Consolidated 2011 £000	University 2011 £000
Fixed assets					
Tangible assets	11	**468,288**	**468,288**	466,042	466,042
Investments	13	**6,362**	**2,853**	5,346	2,781
		474,650	**471,141**	471,388	468,823
Endowment assets	14	**129,498**	**129,498**	128,146	128,146
Current assets					
Stock		**491**	**393**	548	434
Debtors	15	**50,436**	**55,439**	51,207	54,496
Short term investments	16	**24,075**	**24,075**	40,022	40,022
Cash at bank and in hand	16	**92,848**	**90,756**	71,397	69,268
		167,850	**170,663**	163,174	164,220
Less: Creditors – amounts falling due within one year	17	**(143,695)**	**(143,980)**	(140,796)	(140,617)
Net current assets		**24,155**	**26,683**	22,378	23,603
Total assets less current liabilities		**628,303**	**627,322**	621,912	620,572
Less: Creditors – amounts falling due after more than one year	18	**-**	**-**	(45)	(45)
Less: Provisions for liabilities	19	**(4,816)**	**(4,816)**	(4,601)	(4,601)
Net assets excluding pension liability		**623,487**	**622,506**	617,266	615,926
Net pension liability	30	**(122,490)**	**(122,490)**	(56,582)	(56,582)
Net assets including pension liability		**500,997**	**500,016**	560,684	559,344

BALANCE SHEETS
as at 31 July 2012 - continued

	Note	Consolidated 2012 £000	University 2012 £000	Consolidated 2011 £000	University 2011 £000
Represented by:					
Deferred income	20	**215,279**	**215,279**	218,004	218,004
Endowment funds					
Expendable	21	**24,369**	**24,369**	24,264	24,264
Permanent	21	**105,129**	**105,129**	103,882	103,882
		129,498	**129,498**	128,146	128,146
Reserves					
Income and expenditure excluding pension liability	22	**119,166**	**118,600**	107,950	106,981
Pension liability	22, 30	**(122,490)**	**(122,490)**	(56,582)	(56,582)
Income and expenditure including pension liability		**(3,324)**	**(3,890)**	51,368	50,399
Revaluation reserve	22	**159,544**	**159,129**	163,166	162,795
		156,220	**155,239**	214,534	213,194
Total funds		**500,997**	**500,016**	560,684	559,344

The financial statements on pages 12 to 44 were approved by the University Court of the University of Glasgow on 12 December 2012 and were signed on its behalf by:

Professor Anton Muscatelli
Principal

Ken Brown
Convener of Finance Committee

Robert Fraser
Director of Finance

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Net cash inflow from operating activities	23	**13,637**	22,631
Return on investments and servicing of finance			
Income from endowments	21	**5,720**	5,454
Interest received	5	**719**	790
Net cash inflow from return on investments and servicing of finance		**6,439**	6,244
Capital expenditure			
Endowment assets acquired		**(32,387)**	(27,089)
Receipts from the sale of endowment assets		**29,167**	25,519
New bequests	21	**3,466**	1,708
Payments to acquire tangible assets	11	**(22,819)**	(24,161)
Deferred capital grants received	20	**7,360**	19,833
Proceeds of sale of property		**1,737**	-
Net cash outflow from capital expenditure		**(13,476)**	(4,190)
Net cash inflow before management of liquid resources		**6,600**	24,685
Management of liquid resources			
Cash transferred from term deposits	16	**15,947**	27,540
Cash transferred to endowments	14	**(1,096)**	(1,084)
Increase in cash in the year	28	**21,451**	51,141

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS
for the year ended 31 July 2012

	Note	2012 £000	2011 £000
Increase in cash in the year	28	**21,451**	51,141
Cash (outflow) / inflow of liquid resources	28	**(15,947)**	(27,540)
Movement in net funds in the year		**5,504**	23,601
Net funds at 1 August	28	**111,419**	87,818
Net funds at 31 July	28	**116,923**	111,419

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 July 2012

		2012 £000	2011 £000
1	**Funding body grants**		
	Main teaching grant	**75,718**	84,418
	Main quality research grant	**42,194**	42,135
	Research postgraduate grant	**5,521**	5,785
	Knowledge transfer grant	**2,642**	3,059
	Infrastructure grants	**1,302**	2,334
	Deferred capital grants released in the year	**5,036**	4,982
	Other funding council grants	**11,478**	11,474
		143,891	154,187
2	**Tuition fees and education contracts**		
	Home and EU students	**40,117**	41,096
	Overseas students	**43,928**	36,880
	Short courses	**4,583**	4,416
	Other fees	**1,024**	1,173
	Research support grants	**9,952**	10,523
		99,604	94,088
3	**Research grants and contracts**		
	Research councils	**43,716**	47,104
	Charities	**38,113**	39,547
	UK government	**18,538**	16,803
	European commission	**6,782**	5,469
	UK industry	**6,001**	7,277
	Overseas	**8,275**	7,602
	Other sources	**1,107**	1,861
	Deferred capital grants released in the year	**1,819**	2,384
		124,351	128,047
4	**Other Income**		
	Residences and hospitality services	**23,002**	22,586
	Other services rendered	**21,188**	21,813
	Deferred capital grants released in the year	**2,609**	2,847
	Health authorities	**4,902**	5,412
	Other income	**13,340**	14,491
		65,041	67,149
5	**Endowment and investment income**		
	Income from expendable endowments (note 21)	**1,075**	1,042
	Income from permanent endowments (note 21)	**4,645**	4,412
	Endowment management fees	**513**	480
	Income from short-term investments	**719**	790
		6,952	6,724

NOTES TO THE FINANCIAL STATEMENTS
Continued

6	Staff costs	2012	2011
		£000	£000
	By expense type:		
	Salaries	**182,107**	200,231
	Social security costs	**13,859**	14,325
	Other pension costs (note 30)	**37,255**	38,431
		233,221	252,987

With effect from 1 October 2008, members of the USS and UGPS schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution as part of a HMRC approved salary sacrifice scheme. No changes to staff pensionable salaries or total pension scheme contributions arise from this arrangement. The salaries figures reflect the reduced gross pay earned by staff and the total pension costs reflect the increased employer contributions under this arrangement.

	2012 £000	2011 £000
By staff category:		
Academic departments	**112,725**	123,081
Academic services	**15,363**	18,910
Research grants and contracts	**59,335**	62,969
Residences and hospitality services	**3,745**	3,650
Premises	**12,379**	12,955
Administration and other central services	**20,399**	20,721
Other income generating	**9,275**	10,701
	233,221	252,987
Remuneration of the Principal:		
Professor Anton Muscatelli	**250**	250
Contribution in respect of pensions:		
Professor Anton Muscatelli	**40**	40
Aggregate compensation for loss of office paid to former higher paid employees:		
Compensation paid	**507**	940
Pension benefits	**39**	404
	546	1,344

	2012	2011
	Number	Number
Average full time equivalent staff members by major category:		
Academic departments	**2,087**	2,155
Academic services	**380**	435
Research grants and contracts	**911**	974
Residences and hospitality services	**138**	139
Premises	**468**	478
Administration and other central services	**432**	450
Other income generating	**188**	192
	4,604	4,823

NOTES TO THE FINANCIAL STATEMENTS
Continued

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:

	2012 Number		2011 Number	
	Non clinical	Clinical	Non clinical	Clinical
£70,001 - £80,000	**81**	**7**	85	10
£80,001 - £90,000	**53**	**10**	65	15
£90,001 - £100,000	**25**	**12**	26	13
£100,001 - £110,000	**10**	**11**	12	12
£110,001 - £120,000	**11**	**10**	10	5
£120,001 - £130,000	**4**	**7**	3	10
£130,001 - £140,000	**5**	**8**	3	8
£140,001 - £150,000	**4**	**6**	3	8
£150,001 - £160,000	**-**	**9**	-	7
£160,001 - £170,000	**-**	**4**	1	8
£170,001 - £180,000	**1**	**7**	-	9
£180,001 - £190,000	**-**	**5**	-	7
£190,001 - £200,000	**-**	**5**	1	3
£200,001 - £210,000	**-**	**-**	1	2
£210,001 - £220,000	**-**	**-**	-	1
£220,001 - £230,000	**-**	**1**	-	-
£230,001 - £240,000	**-**	**-**	-	-
£240,001 - £250,000	**1**	**-**	1	-

	2012 £000	2011 £000
7 Other operating expenses		
Academic departments	**40,666**	41,237
Academic services	**12,524**	9,783
Research grants and contracts	**51,877**	50,129
Residences and hospitality services	**16,913**	15,686
Premises	**31,298**	29,234
Administration and other central services	**17,759**	15,031
Agency staff	**981**	664
Other income generating	**5,303**	4,782
	177,321	166,546

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

	2012	2011
External auditors' remuneration in respect of audit services	**75**	60
External auditors' remuneration in respect of non-audit services	**35**	67
Internal auditors' remuneration in respect of audit services	**209**	159
Internal auditors' remuneration in respect of non-audit services	**506**	195

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 sections 478-488 of the Corporation Tax Act 2010 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
Continued

		2012 £000	2011 £000
9	**Interest and other finance costs**		
	Net finance cost on pension scheme (note 30)	**616**	1,054
		616	1,054

		2012	2011
10	**Exceptional items**		
	Loss on disposal of Buildings in the West of Scotland Science Park	**(480)**	-
	Surplus on disposal of the undertakings and assets arising from the sale of The Scottish Power Electronics and Electric Drives Consortium	-	800
		(480)	800

		Freehold land and buildings £000	Equipment £000	Total £000
11	**Tangible assets**			
	<u>**Consolidated:**</u>			
	Cost or valuation :			
	As at 1 August 2011	789,653	83,449	873,102
	Additions at cost	15,858	6,961	22,819
	Disposals	(3,238)	(22)	(3,260)
	As at 31 July 2012	**802,273**	**90,388**	**892,661**
	Depreciation :			
	As at 1 August 2011	(340,569)	(66,491)	(407,060)
	Charge for the year	(12,570)	(5,786)	(18,356)
	Eliminated on disposal	1,021	22	1,043
	As at 31 July 2012	**(352,118)**	**(72,255)**	**(424,373)**
	Net Book Value :			
	As at 31 July 2012	**450,155**	**18,133**	**468,288**
	As at 31 July 2011	449,084	16,958	466,042

NOTES TO THE FINANCIAL STATEMENTS
Continued

	Freehold land and buildings £000	Equipment £000	Total £000
11 Tangible assets (continued)			
University:			
Cost or valuation :			
As at 1 August 2011	789,653	83,152	872,805
Additions at cost	15,858	6,961	22,819
Disposals	(3,238)	(22)	(3,260)
As at 31 July 2012	**802,273**	**90,091**	**892,364**
Depreciation :			
As at 1 August 2011	(340,569)	(66,194)	(406,763)
Charge for the year	(12,570)	(5,786)	(18,356)
Eliminated on disposal	1,021	22	1,043
As at 31 July 2012	**(352,118)**	**(71,958)**	**(424,076)**
Net Book Value :			
As at 31 July 2012	**450,155**	**18,133**	**468,288**
As at 31 July 2011	449,084	16,958	466,042

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 £497,646k 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 £70.1m of land (2011 £70.3m) which is not depreciated and £16.8m (2011 - £4.6m) of assets that are under construction and have not yet received a charge for depreciation.

NOTES TO THE FINANCIAL STATEMENTS
Continued

12 Heritage assets

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 main Hunterian Museum is open to visitors on Tuesday to Saturday 10am to 5pm and Sundays 11am to 4pm. The Zoology museum is open Monday to Friday 9am to 5pm. The Hunterian Art Gallery and the Mackintosh House are open to visitors Tuesday to Saturday 10am to 5pm and Sunday 11am to 4pm. Access to the Anatomy Museum is available by appointment only.
Information about the University's policy for the acquisition, preservation and management and disposal of heritage assets can be found at: www.hunterian.gla.ac.uk/foi

During the financial year, the Hunterian Museum acquired a number of items through the Margaret Davidson bequest that included watercolours by Charles Rennie Mackintosh and Margaret Macdonald Mackintosh. The museum also received a work by Italian Baroque artist Pietro da Cortona. The museum purchased two further Charles Rennie Mackintosh pieces costing £20k each and an etching by Pablo Picasso costing £17.5k through the support of the Art Fund (£10k), the National Fund for Acquisitions (£30.5k), the Alexander and Margaret Johnstone Endowment Fund (£7.5k) and the McCallum Endowment (£9.5k). The acquisitions are used for the purposes of research and teaching and therefore do not meet the definition of a Heritage asset.

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.

Special Collections is open to the public Monday to Thursday 9am to 5pm (6pm during term time) and Friday 10am to 5pm. Special Collections is closed during bank holidays. Information about the University's policy for the acquisition, preservation and management and disposal of heritage assets can be found at:
www.gla.ac.uk/services/specialcollections/aboutus/acquisitionspolicy/

There have been no disposals or acquisitions during the financial year.

NOTES TO THE FINANCIAL STATEMENTS
Continued

12 Heritage assets (continued)

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.

Archive services is open to the public as follows: Monday to Friday 9.30am to 5pm. Archive Services is closed during public holidays.

Information about the University's policy for the acquisition, preservation and management and disposal of heritage assets can be found at: http://www.gla.ac.uk/media/media_61203_en.pdf and annual details can be found at http://www.gla.ac.uk/services/archives/aboutus/ourperformance/annualreviews/

There have been no disposals or acquisitions during the financial year.

Reliable information on cost or valuation cannot be obtained for the vast majority of collections held within the Hunterian Museum and Art Gallery, Special Collections and Archive Services. This is because of the diverse nature of the assets held, the number of assets held and the lack of comparable market values. The University does not therefore recognise these assets on the balance sheet, other than recent acquisitions which are reported at cost, where the object is purchased, or at the University's best estimate of current value where the object is donated and meets the definition of a heritage asset. Acquisitions in the year to 31 July 2012 do not meet the definition of a heritage asset and therefore are not recognised on the balance sheet.

	Consolidated 2012 £000	**University 2012 £000**	**Consolidated 2011 £000**	**University 2011 £000**
13 Investments				
Treasury stock at market value	**2,556**	**2,519**	2,492	2,462
Unlisted investments at cost	**84**	**334**	68	319
Listed investments at market value	**3,722**	**-**	2,786	-
	6,362	**2,853**	5,346	2,781

The University has a direct interest of 100% in both the ordinary share capital and preference share capital of GU Holdings Limited, Kelvin Nanotechnology Limited and UGlasgow Singapore Pte Ltd, registered in Singapore. GU Holdings Limited owns 100% of the ordinary share capital of GU Heritage Retail Limited.

These companies are incorporated in the consolidated financial 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 financial statements.

NOTES TO THE FINANCIAL STATEMENTS
Continued

14 Endowment assets (Consolidated and University)	2012 £000	2011 £000
Balance at 1 August	**128,146**	117,215
New endowments invested	**3,466**	1,708
(Decrease) / increase in market value of investments	**(3,477)**	7,798
Surplus transferred from the income and expenditure account	**1,363**	1,425
Balance at 31 July	**129,498**	128,146
Represented by		
Listed investments at market value	**122,131**	121,875
Cash on hand and at bank	**7,367**	6,271
Total endowment assets	**129,498**	128,146

	Consolidated 2012 £000	University 2012 £000	Consolidated 2011 £000	University 2011 £000
15 Debtors: amounts falling due within one year				
Research grants and contracts	**26,996**	**26,996**	26,964	26,964
Prepayments and other sundry debtors	**9,995**	**9,669**	9,887	9,686
Capital projects	**516**	**516**	591	591
Salaries recoverable externally	**719**	**719**	1,238	1,238
Courses, consultancies and contracts	**7,765**	**7,765**	7,877	7,877
Amounts due from subsidiaries	**-**	**5,329**	-	3,490
	45,991	**50,994**	46,557	49,846
Debtors: amounts falling due after more than one year				
Lease incentive	**4,445**	**4,445**	4,650	4,650
	50,436	**55,439**	51,207	54,496

16 Cash balances				
Short term investments	**24,075**	**24,075**	40,022	40,022
Cash at bank and on hand	**92,848**	**90,756**	71,397	69,268
	116,923	**114,831**	111,419	109,290

NOTES TO THE FINANCIAL STATEMENTS
Continued

17 Creditors: amounts falling due within one year

Research grants and contracts	**63,280**	**63,280**	52,606	52,606
Sundry creditors	**12,634**	**12,582**	17,322	17,276
Accruals and sundry provisions	**44,875**	**45,187**	48,322	48,147
Courses, consultancies and contracts	**15,100**	**15,100**	14,386	14,386
Employment cost liabilities	**7,806**	**7,806**	8,160	8,160
Amounts due to subsidiaries	**-**	**25**	-	42
	143,695	**143,980**	140,796	140,617

The University acts as guarantor for the overdrafts of subsidiary companies which total £nil (2011 - £nil).

18 Creditors: amounts falling due after more than one year

Severance liabilities	**0**	**0**	45	45

19 Provisions for liabilities (Consolidated and University)

	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
As at 1 August 2011	2,408	2,163	30	4,601
Income	60	-	-	60
Transfer from income & expenditure Account	302	232	(25)	509
Utilised in year	(155)	(199)	-	(354)
As at 31 July 2012	**2,615**	**2,196**	**5**	**4,816**

A valuation of the pension liability at 31 July 2012 was carried out by the University's appointed independent actuary, Hymans Robertson.

NOTES TO THE FINANCIAL STATEMENTS
Continued

	Deferred grants Funding council £000	Deferred grants Other sources £000	Other deferred income £000	Total £000
20 Deferred income (Consolidated and University)				
As at 1 August 2011:				
Buildings	124,324	52,405	-	176,729
Equipment	5,612	2,097	-	7,709
Residences	-	-	33,566	33,566
	129,936	**54,502**	**33,566**	**218,004**
Income received and receivable in the year:				
Buildings	5,651	699	-	6,350
Equipment	-	1,010	-	1,010
	5,651	**1,709**	**-**	**7,360**
Released to income and expenditure account in the year:				
Buildings	3,971	1,574	-	5,545
Equipment	2,067	984	-	3,051
Residences	-	-	1,489	1,489
	6,038	**2,558**	**1,489**	**10,085**
Balance as at 31 July 2012:				
Buildings	**126,004**	**51,530**	**-**	**177,534**
Equipment	**3,545**	**2,123**	**-**	**5,668**
Residences	**-**	**-**	**32,077**	**32,077**
	129,549	**53,653**	**32,077**	**215,279**

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, £36.9m (2011 - £38.0m) 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
Continued

	Unrestricted permanent £000	Restricted permanent £000	Total permanent £000	Restricted expendable £000	2012 Total £000	2011 Total £000
21 Endowment funds (Consolidated and University)						
As at 1 August						
Capital value	2,990	87,902	90,892	21,256	**112,148**	102,909
Accumulated income	462	12,528	12,990	3,008	**15,998**	14,306
	3,452	**100,430**	**103,882**	**24,264**	**128,146**	117,215
Transfers between endowments	(46)	-	(46)	46	**-**	-
New endowments	-	2,716	2,716	750	**3,466**	1,708
Investment income	150	4,495	4,645	1,075	**5,720**	5,454
Expenditure	(69)	(3,166)	(3,235)	(1,122)	**(4,357)**	(4,029)
Decrease in market value of investments	(90)	(2,743)	(2,833)	(644)	**(3,477)**	7,798
As at 31 July	**3,397**	**101,732**	**105,129**	**24,369**	**129,498**	128,146
Represented by:						
Capital value	2,853	87,892	90,745	21,066	**111,811**	112,148
Accumulated income	544	13,840	14,384	3,303	**17,687**	15,998
	3,397	**101,732**	**105,129**	**24,369**	**129,498**	128,146
Analysis by type of purpose:						
Lectureships	3,010	43,713	46,723	16,739	**63,462**	61,407
Scholarships and bursaries	385	49,745	50,130	7,549	**57,679**	58,285
Prize funds	2	4,507	4,509	81	**4,590**	4,644
General	-	3,767	3,767	-	**3,767**	3,810
	3,397	**101,732**	**105,129**	**24,369**	**129,498**	128,146

Major endowments

Restricted permanent endowments include the Postgraduate Scholarships for Advanced Study and Research which is awarded to enable graduates or holders of qualifications accepted by the Court to undertake advanced study or research.

The movements on this fund for the year were as follows:

	£000
Balance at 1 August 2011	21,836
New endowments	-
Investment income	965
Expenditure	(1,245)
Decrease in market value of investments	(497)
Balance at 31 July 2012	**21,059**

NOTES TO THE FINANCIAL STATEMENTS
Continued

	Consolidated 2012 £000	University 2012 £000	Consolidated 2011 £000	University 2011 £000
22 Reserves				
Income and expenditure reserve				
As at 1 August	**107,950**	**106,981**	94,792	94,578
Surplus retained for the year	**8,482**	**8,885**	9,811	9,056
Transfer from revaluation reserve	**3,804**	**3,804**	3,909	3,909
Transfer to pension liability reserve	**(1,070)**	**(1,070)**	(562)	(562)
As at 31 July	**119,166**	**118,600**	107,950	106,981
Pension liability reserve				
As at 1 August	**(56,582)**	**(56,582)**	(65,885)	(65,885)
Actuarial (loss) / gain (note 30)	**(66,978)**	**(66,978)**	8,741	8,741
Transfer from income and expenditure reserve	**1,070**	**1,070**	562	562
As at 31 July	**(122,490)**	**(122,490)**	(56,582)	(56,582)
Revaluation reserve				
As at 1 August	**163,166**	**162,795**	166,793	166,464
Transfer to income and expenditure reserve	**(3,396)**	**(3,396)**	(3,909)	(3,909)
Disposal in year	**(408)**	**(408)**	-	-
Increase in market Value of general investments	**182**	**138**	282	240
As at 31 July	**159,544**	**159,129**	163,166	162,795

NOTES TO THE FINANCIAL STATEMENTS
Continued

23	Reconciliation of operating surplus to the net cash inflow from operating activities	2012 £000	2011 £000
	Operating surplus	**9,845**	11,236
	Depreciation (note 11)	**18,356**	19,172
	Loss on disposal (note 10)	**480**	-
	Deferred capital grants released to income (note 20)	**(8,596)**	(9,656)
	Deferred residences income released to income (note 20)	**(1,489)**	(1,489)
	Change in value of investments	**(834)**	(311)
	Interest receivable (note 5)	**(719)**	(790)
	Endowment expenditure (note 21)	**(4,357)**	(4,029)
	Endowment management fee (note 5)	**(513)**	(480)
	(Increase) / decrease in stocks	**57**	(59)
	(Increase) / decrease in debtors	**771**	(4,060)
	Increase in creditors	**2,854**	15,073
	Increase / (decrease) in provisions	**215**	11
	Pension costs less contributions payable (note 22)	**(1,070)**	(562)
	Endowment transfer (note 14)	**(1,363)**	(1,425)
	Net cash inflow from operating activities	**13,637**	22,631

24	Capital commitments	2012 £000	2011 £000
	Consolidated and University		
	Commitments contracted at 31 July	**4,027**	10,457
	Authorised but not contracted at 31 July	**54,963**	21,260
		58,990	31,717

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, £36.9m (2011 - £38.0m) 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.

NOTES TO THE FINANCIAL STATEMENTS
Continued

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.

27 Amounts disbursed as agent

	HE Childcare Fund £000	HE Discretionary Fund £000	2012 Total £000	2011 Total £000
As at 1 August	**33**	**71**	**104**	6
Funds received in year	**377**	**1,072**	**1,449**	1,462
Expenditure	**(185)**	**(1,359)**	**(1,544)**	(1,367)
Virements	**(226)**	**226**	**-**	-
Interest	**1**	**1**	**2**	3
As at 31 July	**-**	**11**	**11**	104

28 Analysis of changes in net funds

	As at 1 Aug 2011 £000	Cash Flows £000	As at 31 July 2012 £000
Cash at bank and in hand	71,397	21,451	**92,848**
Short term investments	40,022	(15,947)	**24,075**
Net funds	111,419	5,504	**116,923**

Had the cash held under endowment asset investments (note 14) been included above, the net cash inflow would have been £6.6m with net funds at 31 July 2012 of £124.3m compared to £117.7m at 31 July 2011. 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
Continued

30 Pension schemes

The University participates in the following pension schemes:

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

The total pension costs for the University were as follows:	2012 £000	2011 £000
USS - contributions paid	**29,064**	29,440
UGPS - charge to income and expenditure account	**7,441**	8,248
SPF - charge to income and expenditure account	**89**	140
Other Schemes - contributions paid	**661**	603
	37,255	38,431

With effect from 1 October 2008, members of the USS and UGPS schemes may elect to give up a portion of their contractual gross pay equal to their employees' pension contribution as part of a HMRC approved salary sacrifice scheme. No changes to staff pensionable salaries or total pension scheme contributions arise from this arrangement. The figures within note 6 to the financial statements reflect the reduced gross pay earned by staff under this arrangement. The total pension costs shown above and in note 6 reflect the increased employer contributions under this arrangement. Employer contribution percentage rates quoted below represent only the employer's contribution rates specified by the scheme trustees.

For both the UGPS and SPF, 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 funds, 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. The consolidated balances for UGPS and SPF as shown in the financial statements and associated notes are as follows:

	2012 £000	2011 £000
Deficit in schemes at 31 July		
UGPS	**(119,337)**	(57,121)
SPF	**(3,153)**	539
Total net deficit in the schemes	**(122,490)**	(56,582)
Amount recognised in the Statement of Total Recognised Gains and Losses		
UGPS	**(62,963)**	8,091
SPF	**(4,015)**	650
Total (losses) / gains for the year	**(66,978)**	8,741
Total net finance charge (note 9)		
UGPS	**(736)**	(1,051)
SPF	**120**	(3)
Total net finance charge	**(616)**	(1,054)

Due to the mutual nature of the other schemes, the University is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the schemes in respect of the accounting period.

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

a) UGPS

This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension. 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.

A full actuarial valuation was carried out as at 1 April 2010 and an actuarial report produced as at 1 April 2011. The major assumptions used at 31 July are shown below:

	2012	**2011**	**2010**
Discount rate	**3.90%**	5.30%	5.40%
Retail price inflation	**2.60%**	3.30%	3.20%
Rate of increase in salaries	**3.60%**	4.30%	4.20%
Rate of increase to pensions in payment	**1.85%**	2.55%	3.20%
Consumer price inflation	**1.85%**	2.55%	-

The weighted average life expectancies used to determine benefit obligations are as follows.

	2012 Male	**2012 Female**	2011 Male	2011 Female
Member age 65 (current life expectancy)	**19.7**	**22.4**	19.6	22.3
Member age 45 (life expectancy at age 65)	**21.6**	**24.3**	21.5	24.2

The assets in the scheme and the expected rates of return were:

	Long term rate of return expected at 31 July 2012	**Value at 31 July 2012 £000**	**Long term rate of return expected at 31 July 2011**	**Value at 31 July 2011 £000**	**Long term rate of return expected at 31 July 2010**	**Value at 31 July 2010 £000**
Equities	**5.30%**	**206,225**	6.50%	206,511	6.80%	182,085
Bonds	**-**	**-**	-	-	-	-
Property	**-**	**-**	-	-	-	-
Cash	**0.50%**	**2,020**	0.50%	4,469	0.50%	2,288
Total		**208,245**		210,980		184,373

The following amounts at 31 July 2012 were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2012 £000	**Value at 31 July 2011 £000**	**Value at 31 July 2010 £000**
Total market value of assets	**208,245**	210,980	184,373
Present value of liabilities	**(327,582)**	(268,101)	(249,936)
Deficit in the scheme	**(119,337)**	(57,121)	(65,563)

The University has contributed 19.5% of pensionable salaries over the year to 31 July 2012 and expects to make similar contributions over the next year. The University also made an additional contribution of £0.85m in the year to 31 July 2012 and expects to make an additional payment of £0.85m during the next year.

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

a) UGPS (continued)

	2012 £000	2011 £000
Operating profit:		
Current service cost	**(7,441)**	(8,248)
Total operating charge	**(7,441)**	(8,248)
Other finance costs:		
Expected return on scheme assets	**13,380**	12,467
Interest cost	**(14,116)**	(13,518)
Total net finance charge	**(736)**	(1,051)
Total pension cost recognised in the income and expenditure account	**(8,177)**	(9,299)
Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	**(14,068)**	11,930
Change in assumptions underlying the present value of the scheme liabilities	**(48,895)**	(3,839)
Actuarial (losses)/gains recognised in the STRGL	**(62,963)**	8,091

The cumulative loss recognised in the STRGL to date is £83.6m.

Movements in present value of scheme assets during the year:	2012 £000	2011 £000
Assets at beginning of the year	**210,980**	184,373
Movement in year:		
Expected return on scheme assets	**13,380**	12,467
Actuarial gains	**(14,068)**	11,930
Contributions by the employer	**8,924**	9,650
Benefits paid	**(10,971)**	(7,440)
Assets at the end of the year	**208,245**	210,980

Movements in present value of scheme liabilities during the year:	2012 £000	2011 £000
Liabilities at beginning of the year	**268,101**	249,936
Movement in year:		
Current service cost	**7,441**	8,248
Interest cost	**14,116**	13,518
Change in assumptions	**48,895**	3,839
Benefits paid	**(10,971)**	(7,440)
Liabilities at the end of the year	**327,582**	268,101

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

a) UGPS (continued)

Details of the experience gains and losses for the years to 31 July:	**2012**	**2011**	**2010**	**2009**	**2008**
	£000	**£000**	**£000**	**£000**	**£000**
Fair value of scheme assets	**208,245**	210,980	184,373	154,763	162,374
Present value of scheme liabilities	**(327,582)**	(268,101)	(249,936)	(218,712)	(218,767)
Deficit in the scheme	**(119,337)**	(57,121)	(65,563)	(63,949)	(56,393)
Experience gains and (losses) on scheme assets:					
Amount £000	**(14,068)**	11,930	15,351	(21,974)	(24,705)
Percentage of scheme assets	**(6.8%)**	5.7%	8%	(14%)	(15%)
Experience gains and (losses) on scheme liabilities:					
Amount £000	**429**	(13,104)	-	-	3,915
Percentage of scheme liabilities	**0.1%**	(4.9%)	-	-	2%

b) SPF

This is an externally funded, multi-employer, defined benefit scheme which is contracted out of the State Second Pension. The element of SPF attributable to the University covers 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 is a multi-employer defined benefits scheme and covers past and present employees.

A valuation of the University's benefit obligation in respect of its members has been estimated by a qualified independent actuary based on the 31 March 2011 valuation results, rolled forward onto the FRS 17 assumptions at 31 July 2012. The major assumptions used are shown below:

	2012	**2011**	**2010**
Discount rate	**3.90%**	5.30%	5.40%
Retail price inflation	**2.60%**	3.30%	3.20%
Rate of increase in salaries	**3.60%**	4.30%	4.20%
Rate of increase to pensions in payment	**1.85%**	2.55%	3.20%
Consumer price inflation	**1.85%**	2.55%	-

The weighted average life expectancies used to determine benefit obligations are as follows.

	2012 Male	**2012 Female**	2011 Male	2011 Female
Member age 65 (current life expectancy)	**19.7**	**22.4**	19.6	22.3
Member age 45 (life expectancy at age 65)	**21.6**	**24.3**	21.5	24.2

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

b) SPF (continued)

The assets in the scheme and the expected rates of return were:

	Long term rate of return expected at 31 July 2012	Value at 31 July 2012 £000	Long term rate of return expected at 31 July 2011	Value at 31 July 2011 £000	Long term rate of return expected at 31 July 2010	Value at 31 July 2010 £000
Equities	**5.30%**	**8,166**	6.50%	9,386	6.80%	7,234
Bonds	**3.40%**	**1,454**	4.70%	1,606	4.50%	1,434
Property	**5.30%**	**895**	6.50%	741	6.80%	954
Cash	**0.50%**	**671**	0.50%	618	0.50%	1,902
Total		**11,186**		12,351		11,524

The following amounts at 31 July 2012 were measured in accordance with the requirements of FRS 17:

	Value at 31 July 2012 £000	Value at 31 July 2011 £000	Value at 31 July 2010 £000
Total market value of assets	**11,186**	12,351	11,524
Present value of liabilities	**(14,339)**	(11,812)	(11,846)
Surplus / (deficit) in the scheme	**(3,153)**	539	(322)

The University paid contributions to the Fund at 22.3% for former SCRE staff and at 23.8% for former St Andrew's staff until 31 March 2011. From 1 April 2011, contribution rates have been reassessed and consolidated and the employer rate is 21% for both former SCRE and St Andrew's staff. Additionally the University has paid £194k of deficit contributions between 1 August 2011 and 31 July 2012.

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

b) SPF (continued)

	2012	2011
Operating profit:	**£000**	**£000**
Current service cost	**(89)**	(128)
Losses on curtailments and settlements	**-**	(12)
Total operating charge	**(89)**	(140)
Other finance costs:		
Expected return on scheme assets	**733**	626
Interest cost	**(613)**	(629)
Total net finance credit / (charge)	**120**	(3)
Total pension credit / (cost) recognised in the income and expenditure account	**31**	(143)
Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	**(1,612)**	402
Change in assumptions underlying the present value of the scheme liabilities	**(2,403)**	248
Actuarial (losses) / gains recognised in the STRGL	**(4,015)**	650

Movements in present value of scheme assets during the year:	**2012**	**2011**
	£000	**£000**
Assets at beginning of the year	**12,351**	11,524
Movement in year:		
Expected return on scheme assets	**733**	626
Actuarial (losses) / gains	**(1,612)**	402
Contributions by the employer	**292**	354
Contributions by the scheme participants	**30**	41
Benefits paid	**(608)**	(596)
Assets at the end of the year	**11,186**	12,351

	2012	**2011**
Movements in present value of scheme liabilities during the year:	**£000**	**£000**
Liabilities at beginning of the year	**11,812**	11,846
Movement in year:		
Current service cost	**89**	128
Losses on curtailments and settlements	**-**	12
Interest cost	**613**	629
Change in assumptions	**2,403**	(248)
Contributions by the scheme participants	**30**	41
Benefits paid	**(608)**	(596)
Liabilities at the end of the year	**14,339**	11,812

30 Pension schemes (continued)

b) SPF (continued)

Details of the experience gains and losses for the years to 31 July:	**2012**	2011	2010	2009	2008
	£000	**£000**	**£000**	**£000**	**£000**
Fair value of scheme assets	**11,186**	12,351	11,524	8,645	8,557
Present value of scheme liabilities	**(14,339)**	(11,812)	(11,846)	(10,709)	(10,850)
Surplus / (deficit) in the scheme	**(3,153)**	539	(322)	(2,064)	(2,293)
Experience gains and (losses) on scheme assets:					
Amount £000	**(1,612)**	402	2,357	(325)	(867)
Percentage of scheme assets	**(14%)**	3%	20%	(4%)	(10%)
Experience gains and (losses) on scheme liabilities:					
Amount £000	**(1,007)**	1,059	-	-	-
Percentage of scheme liabilities	**(7%)**	9%	-	-	-

C) USS

The Universities Superannuation Scheme (USS) is a UK-wide defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The appointment of directors to the board of the trustee is determined by the Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of 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

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

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

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

Standard mortality tables were used as follows:

Male members’ mortality	S1NA [“light”] YoB tables – no age rating
Female members’ mortality	S1NA [“light”] YoB tables – rated down one year

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

c) USS (continued)

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

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,434 million and the value of the scheme's technical provision was £35,344 million indicating a shortfall of £2,910 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004, the scheme was 93% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

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

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic salary experience. However when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

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

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

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

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

Flexible retirement
Flexible retirement options were introduced.

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

c) USS (continued)

Member contributions increased

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

Cost Sharing

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

Pension increase cap

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

Since March 2011 global investment markets have continued to fluctuate and following its peak in September 2011, inflation has declined rapidly towards the year-end although the market's assessment of inflation has remained reasonably constant. The actuary has estimate that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes in market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS17 basis using a AA bond discount rate of 4.9% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 56%.

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

Assumption	Change in Assumption	Impact on shortfall
Investment Return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1.0 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

The USS is a 'last man standing' scheme so that in the event of the insolvency of any of the participating employers in the USS, the amount of any pension funding shortfall (which cannot be otherwise 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 believe that over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

c) USS (continued)

exposure to equities through portfolios that are diversified both geographically and by sector. The Trustees recognise that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However in order to meet the long-term funding objective within a level of contributions that it considers employer would be willing to make the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities.

Before deciding what degree of investment risk to take relative to the liabilities, the Trustees receive advice from its internal investment team, its investment consultant and the scheme actuary, and considers the view of the employers. The 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 in the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed directly through to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

At March 2011, USS had over 145,000 active members and the University had over 2500 members participating in the scheme.

The total USS pension cost for the University was £29.1 million (2010/11 – 29.5 million). This includes £2.4 million (2010/11 - £2.4 million) of outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16% of pensionable salaries.

d) 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 accepted that the treatment can be as a defined contribution scheme as the University of Glasgow is unable to identify its share of the underlying assets and liabilities of the scheme. An actuarial valuation was carried out at 31st March 2005. The results of this valuation were rolled forward to give a liability of £21.97 billion at 31st March 2011.

As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the schemes actuary at a level to meet the cost of pensions as they accrue.

Financial assumptions at 31st March 2011

Rate of return (discount rate):	5.6%
Rate of return in excess of:	
Earnings increases:	0.7%
Price increases:	2.9%

With effect from 1 April 2012 employees' regular contributions moved to a tiered system with a minimum amount of 6.4% of pensionable salary and a maximum amount of 8.8% of pensionable salary. The total pension cost for the institution was £138k (2011 - £144k). This includes £12k (2011 - £12k) of outstanding contributions at the balance sheet date. Employees' regular contributions were £42k (2011 - £42k) and £5.5k (2011 - £5.5k) in respect of additional voluntary contributions.

e) NHSSS

The scheme is an unfunded multi employer defined benefit scheme. It is accepted that the treatment can be as a defined contribution scheme as the University of Glasgow is unable to identify its share of the underlying assets and liabilities of the scheme. An actuarial assessment was carried out at 31st March 2008. The results of this assessment were rolled forward to give a liability of £24.1 billion at 31st March 2011.

As the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the schemes actuary at a level to meet the cost of pensions as they accrue.

NOTES TO THE FINANCIAL STATEMENTS
Continued

30 Pension schemes (continued)

e) NHSSS (continued)

Financial assumptions at 31st March 2011

Rate of return (discount rate):	5.6%
Rate of return in excess of:	
Earnings increases:	0.7%
Price increases:	2.9%

The total pension cost for the University was £523k (2011 - £459k). This includes £43k (2011 - £38k) of outstanding contributions at the balance sheet date. Employees' regular contributions were £289k (2011 - £238k) and £16k (2011 - £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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