UNIVERSITY OF CAPE TOWN

Incorporated in terms of the Higher Education Act, 1997, and the Statute of the University of Cape Town, promulgated under Government Notice No. 1199 of 20 September 2002 and as amended by Government Notice 259 of 26 February 2004

ANNUAL REPORT

2006

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EXECUTIVE MEMBERS OF COUNCIL		REGISTRAR
Professor N S Ndebele (1, 2, 3 ,4 & 6)	(Vice-Chancellor)	Mr H T Amoore (5)
Professor C de la Rey (6)	(Deputy Vice-Chancellor)	EXECUTIVE DIRECTOR OF FINANCE
Professor M J Hall (4, 5 & 6)	(Deputy Vice-Chancellor)	Professor E O Uliana (4)
Professor R T Nhlapo (6)	(Deputy Vice-Chancellor)	
Professor M E West (4, 6)	(Deputy Vice-Chancellor)	

COUNCIL OF THE University of Cape Town (1 JULY 2004- 30 JUNE 2008)
Mr G M Budlender (1, 3) (Chair)
Mr T D Petersen (1, 3, 4) (Deputy chair)
Professor D G Aschman (1)
Dr A W Barday
Ms D Budlender (4, 6)
Ms V Doo (3)
Professor M P Ensor
Em Professor P I Folb
Mr R Garlick
Mr J J Gauntlett SC (1)
Ms E Goliath
Ms R Kadalie (1)
Mr A Jakoet (2,4)
Mr P S G Leon
Professor B Mayosi
Mr T Mhlambiso
Mr L Mphalwa
Ms Z Mqolomba (1)
Councillor O Kinahan
Mr E Patel
Dr L F Platzky (6)
Professor B D Reddy
Mr R B Rosenthal (2, 3)
Em Professor J Terblanche
Mr M A Thompson (2, 3, 4, 5)

1 = Member of Council Executive Committee	2 = Member of Audit Committee
3 = Member of Remuneration Committee	4 = Member of Finance Committee
5 = Member of Building and Development Committee	6 = Member of Strategy Committee

BUSINESS ADDRESS	AUDITORS
Bremner Building Lovers Walk Rondebosch 7701	Ernst & Young P O Box 656 Cape Town 8001
POSTAL ADDRESS	**BANKERS**
Private Bag Rondebosch 7701	The Standard Bank of SA Limited P O Box 1 Rondebosch 7700

STATEMENTS ON GOVERNANCE AND REPORTS ON OPERATIONS

REPORT OF THE CHAIR OF COUNCIL

I began my previous report with some reflections on the report issued at the end of 2005 on the audit of quality assurance mechanisms by the Higher Education Quality Council (HEQC). It seems appropriate to reflect on how far we have gone towards responding to our self-review and the validation of that by the HEQC.

First, as the subsequent reports will show, we have developed a comprehensive quality improvement plan. The first periodic review to ensure that this is effectively translated into action has been completed.

Secondly, significant attention has been given to pass rates (the proportion of courses passed) and throughput rates (the proportion of those entering a programme who leave UCT with a qualification). Academic development interventions, which are crucial to both widening access and ensuring student success, have been strengthened. The analyses of cohorts of students allow us to track throughput rates, and faculties are giving particular attention to ways of reducing the number of students dropping out in good academic standing. Towards the end of 2006 we were able to approve an imaginative plan for Engineering which, with the aid of targeted funding from the Education Ministry, has put in place a multi-faceted programme aimed at increasing the output of engineering graduates both by increased enrolment (civil engineering enrolment reached record levels in 2007) and, equally importantly, by increasing throughput rates.

The teaching and learning report provides further evidence of progress towards achieving our quality goals. The research report shows progress towards our goal of being a research-led institution. Among the many indicators of progress in research was UCT's success in winning seven of the first 21 national NRF research chairs, in competition with all other institutions. The research report for 2006 shows an increase in the number of peer-reviewed publications, another measure of progress in the research area.

Social responsiveness is a key part of our mission; our mission statement calls for us to be an outstanding teaching and research university, educating for life and addressing the challenges facing our society. The Social Responsiveness report for 2006, published separately, examines a series of remarkable cases in which research and teaching expertise has been directed at a wide range of societal problems. It is evidence of a university-wide commitment to realising this aspect of our mission. HIV/AIDS is without question one of the key challenges facing our society. The Council has been anxious not only that we should have appropriate policies and programmes in place for staff and students, but also that the expertise of the University should be directed to addressing this scourge. We believe that we now have sound programmes in place, and a dedicated staff in campus-support agencies. During 2006 we arranged a conference to assess what we are doing, and invited a panel of experts to provide an independent critique of these programmes and of HIV/AIDS in the curriculum and in research programmes. Their report shows that the University is doing excellent work in this area, and can do still better. That is the Council's goal.

Ensuring a stable financial base is one of a Council's key responsibilities. The financial statements are again an important marker of the health of UCT. For the third successive year a small budget deficit has been turned into a small budget surplus. This however falls far short of the targeted surplus, in our Medium Term Budget Framework, of 5% of recurrent income. We have a strong balance sheet, and market conditions meant that our endowment capital (held in trust in the UCT Foundation) reached the billion rand mark for the first time. Most of the endowment is designated, and we have yet to make substantial progress towards our goal of increased general endowment capital through fund-raising. The Council is grateful to its standing finance committee (under the leadership of Trevor Petersen) and the finance executive director, Professor Enrico Uliana for their stewardship, and to Ken Geeling who continues to chair the Joint Investment Committee (of which he has been a member since the late 1970s) with significant success.

All these measures point to the reputation that UCT deservedly has as the top-ranked University on our continent. However being ranked thus, and highly in the world, is no basis for complacency.

We seek to achieve the University's transformation from an almost entirely white institution forty years ago, to one that transcends the legacy of apartheid in South Africa and overcomes all forms of discrimination. This places particular obligations on UCT. A key issue is access. Three instruments which determine access are fees, financial aid and admissions policies. All three continue to enjoy the attention of the Council, the executive officers and senior management.

In 2007, for yet another year, the increases in both tuition and student housing fees were above the inflation rate. The major elements of revenue are state subsidy, tuition and residence fees, and funding for research. We have over several years deliberately and systematically improved remuneration for all levels and categories of staff. We see this as necessary in our pursuit of excellence, as staff are our key resource. However, in the absence of an increase in other sources of income, the inevitable consequence of this is an increase in fees. The setting of fees is not easy precisely because the level of fees – both tuition and residence fees – makes a UCT education unaffordable to many. We have recently carried out a detailed survey of financial aid provision. This has helped us to understand better which prospective students we, and the state through NSFAS (the National Student Financial Aid Scheme) are able to help; and which are not able to get support and therefore do not come to UCT. This review will place the executive in a good position to devise ways in which we can begin to address these problems, and to formulate submissions to the State. Fundamentally, this should be a public issue and a public responsibility. But clearly we will have to do more from our own resources.

Admissions policy has come under internal and public scrutiny. Our admissions policy contains redress or affirmative action measures first, because we believe we must have them in order to become the university we seek to be, secondly, because such measures are constitutionally mandated, and thirdly, because the Higher Education Act requires that admissions policies make provision for redress. We have three to four applicants for every place, and we have many more well qualified applicants than we are able to admit. We have equity admissions targets, and we give preference to qualified applicants to enable us to meet those targets. An applicant's self-determined category of race (we use the categories in employment equity legislation) is used as a proxy for disadvantage, and thus as the basis for redress measures. We are aware that this is an imperfect proxy, but it is the best available to us. In reviewing this policy, which we have again confirmed, we have been mindful that half of UCT's students are white. In fact white student numbers have remained constant, and the recent growth in student numbers is attributable to increased black enrolment. The challenge is to create opportunity for those of equal ability, to bring factors other than race to bear in targeting redress, to promote diversity as an important element of the learning environment, and to ensure through academic support and other means that the disadvantaged students we admit succeed.

What of the other challenges that we face?

Evidence suggests that students who stay in residence enjoy an enriched experience. During 2006 we built a new 380-bed women's residence, Graca Machel Hall, completed (though with some snags) in time for students to move in at the start of the new year 2007. The new residence is an exciting building and we look forward to its official opening by the Chancellor. However, we still have residence places for only half the number who need them, and unhappily, we are compelled to deny the residence experience to local students. Student housing therefore remains a challenge that will be with us for some years yet.

The past year was marked by change and infrastructural development. The multi-million rand ICT infrastructural renewal was mostly complete by year-end. The PeopleSoft Campus Solutions software (with a range of complementary software for specific applications) went live in supporting our core functions of teaching and research. We introduced a new academic timetable, which involves significant reforms. A new residence admissions policy was adopted mid-cycle. These are but some of the changes. All will, we believe, have long term benefits but none was achieved without growing pains and teething troubles. The collective effect on staff, students and applicants in 2006 was one we do not want, and cannot afford, to repeat.

Increased enrolment at undergraduate and postgraduate levels, and increasing research activity and opportunity, have exacerbated the already serious space issues on the upper campus. A campus spatial development plan is being developed. We will have to relieve the pressures on the upper campus. Critical space issues are constraining Commerce, the Humanities, and Engineering and the Built Environment, as well as a key resource, the Library.

One of UCT's strengths, and an area in which UCT has made very important contributions, is the Faculty of Health Sciences. It has set the standard (in partnership with the health department of the Provincial Government of the Western Cape) for undergraduate and especially postgraduate clinical education, for clinical research (alongside basic research), and for service delivery. This is under threat, as our partnership with the Province comes under strain as a result of the changing health service delivery priorities. This has become and will continue to be an important focus of executive time, and will continue to demand Council's attention.

The final challenge is to maintain the momentum of the drive to be a fully transformed institution. This is, as it must be, multi-faceted. Transformation is much more than a question of numbers. Transformation

The final challenge is to maintain the momentum of the drive to be a fully transformed institution. This is, as it must be, multi-faceted. Transformation is much more than a question of numbers. Transformation requires that we must have excellent people, and that we give them the space, climate, and resources to develop their full potential, both as students and as staff. It requires rigorous pursuit of student and staff equity targets based on our commitment to excellence. It requires the active pursuit of excellence in all we do, from recruitment, to ensuring better throughput, to providing stimulus for the very bright, and to quality research which where relevant should be socially responsive.

G M BUDLENDER

CHAIR OF COUNCIL

6 JUNE 2007

REPORT OF THE VICE-CHANCELLOR

| PART 1 |

STRATEGY AND IMPLEMENTATION

The strategic objectives of the University of Cape Town are set within a multi-year framework and are driven by the Office of the Vice-Chancellor on an annual basis. Together, the Vice-Chancellor & Principal, and the Deputy Vice-Chancellors constitute the Office of the Vice-Chancellor. The institution-wide objectives previously approved by Council continue to enjoy currency and are critical points of reference that inform and guide University activity. As referred to in my 2005 report, these strategic objectives are:

- Advancing transformation in student and staff profiles, and institutional culture;
- Improving the quality of teaching and learning;
- Strengthening and renewing human capital and infrastructure;
- Improving research outcomes by selecting signature themes and centres of excellence;
- Strengthen and widen continuing professional education, establishing a sustainable source of additional income;
- Achieving sustainable financial stability; and
- Responding to HIV / AIDS.

In my capacity as Vice-Chancellor & Principal, I have given special attention to the promotion of UCT's public profile through relationship building and networking with government and other key players who can influence and significantly impact UCT's future, championed key fundraising initiatives, consolidated relationships with universities globally, particularly on the African continent, ensured efficient management of staff, financial, and physical assets of the University in line with its broad academic goals, and shaped an enabling environment to facilitate a higher level of participation in the process of leadership across UCT. It has also been a focus to deepen links with Government and the private sector in the light of the Accelerated and Shared Growth Initiative of South Africa.

Building on the 2005 audit by the Council for Higher Education, a report on UCT having been approved by the HEQC on 8 March 2006, UCT developed its quality improvement plan to address challenges that we identified in our own self-evaluation portfolio as well as engage with the recommendations of the HEQC to make UCT a stronger institution and improve the quality of the student experience.

Giving the transformation imperative of the current times, the *Living Transformation* plan launched in late 2005 was given further impetus in 2006 through the *khuluma* (*to talk, to speak, to speak up…)* project. This took the form of an integrated strategy, based on diversity as an asset, to contribute to the transformation of institutional culture at UCT with its objective being to effect a lasting and sustainable set of changes in institutional culture. This 'safe space' opportunity was available to all staff.

In order to be better placed to respond to specific challenges, we completed in 2006 the work started in 2005 of fine-tuning our communication and development services, in order to enhance internal and external communication, and to strengthen our ability to fundraise for priority projects and the way we relate to our international entities and alumni across the world.

2006 saw the introduction of a new academic year pattern and new student fee structure. On the financial front our management is exceptional and our financial position continues to improve as we continue to work towards our medium term budget framework objective of achieving a minimum 5% budget surplus. By the end of 2006 the new Graca Machel Hall women's residence had reached a stage of near completion, adding to our 36 student residences, housing 5 600 students university-wide.

At UCT we have a heightened awareness of our place in South Africa, Africa and the world, and we seek to ensure that our academic programmes are excellent as well as locally and globally relevant. UCT continues to strive to be enriched by participation in global academic life, leveraging to best advantage the many prestigious international research linkages, as well as student exchange programmes, which bring a welcome diversity to our classrooms and academic debates. In 2006 UCT enrolled over 4 000 international students from more than 100 countries. The international students, drawn primarily from Africa, constituted 19% of our total enrolment.

With a student body of just less than 20 000 enrolments, 50% black and 50% white, it remains our objective to grow at the postgraduate level. The respect in which our research is held is underscored by the growing number of partnerships with many local and international institutions that have grown into mutually beneficial academic and research collaborations. A large number of research links within Africa and throughout the world exist. We are also proud of our growing number of doctoral graduates. The doctoral dissertations completed in 2006 show that our student researchers are making important contributions to knowledge in a diversity of fields. Our Emerging Researchers Programme continues to make an important contribution to the pressing national challenge of growing our next generation of research leaders and of transforming our current profile of active researchers.

A significant event in 2006 was the ***Frontiers of Knowledge in Science and Technology*** Conference convened at UCT. At this inaugural meeting of the African University Leaders' Forum, Vice-Chancellors of fifteen African Universities met in Cape Town from the 19th to the 21st of November, 2006 to discuss the role of higher education in promoting economic growth in Africa today. They focussed in particular on the immense potential of information and communication technologies to transform the teaching, learning, and research environments in African universities, and the capacity of those technologies to stimulate large changes in Africa's growing economies. The Vice-Chancellors acknowledged the renewed interest in higher education by African leaders who have included it as one of the key areas of focus in the African Union's recent ***Plan of Action for the Second Decade of Education for Africa (2006-2015)***. African University Leaders will work in partnership with Carnegie, Ford, Hewlett, MacArthur, Mellon, and Rockefeller Foundations, who supported the forum of Vice-Chancellors in Cape Town, to advance African higher education within the framework of the challenges identified. Key partners also include the Association of African Universities and the African Academy of Sciences.

Every year is significant for various reasons, and so too 2006. I acknowledge the role of all at UCT – the Deputy Vice-Chancellors and members of the senior leadership team, the Chair and members of the University Council, and all other members of the University community – for their advice and contributions.

| PART 2 |

SENATE: TEACHING, LEARNING AND RESEARCH

The Senate is responsible for the teaching and research work of the University, including the syllabuses, curricula and examinations. The Senate undertakes much of this work through the Boards of Faculty, and the faculty structures that deal with curricula (the programmes committees), examinations (the faculty examinations committees) and with students whose academic progress in unsatisfactory (the readmission review committees).

Student Enrolments and Qualifications

Student head count enrolments grew by 9% between 2002 and 2006, or at a rate of 2.2% per annum. The 2006 unduplicated student headcount enrolment total at year end was 19 978. In recent years, the average annual growth rate at the undergraduate level (2.2% per annum) has only slightly exceeded that at the postgraduate level (2.0% per annum), and the ratio of undergraduate to postgraduate enrolments stood at 72:28 in 2007.

Physical capacity constraints and a focus on increasing the postgraduate share of the enrolment have resulted in a flattening of growth in UCT's undergraduate sector in recent years. The first-time entering undergraduate intake has stabilised at around 3 600 despite persistent applicant pressure. At the same time, the quality of the new undergraduate intake, measured in terms of prior matric performance, has improved steadily over the last several years. Longitudinal studies of first-time entering undergraduate cohorts suggest that growth in undergraduate enrolments has resulted from diminished levels of undergraduate attrition as well as an apparent increase in the time to degree amongst successful graduates during the same period.

Between 2002 and 2006, enrolments in general academic bachelors degrees grew by 2%, whilst those in professional first bachelors degrees grew by 15%. At the postgraduate level, honours and masters enrolments grew by 10% and 5% respectively, whilst doctoral enrolments increased by 23% over the same period. The 2006 year end figures showed a combined total of more than 3 700 masters and doctoral students; masters and doctoral enrolments together made up 17% of the head count enrolment total.

Student Output Efficiencies

A total of 4 527 registered students qualified for the award of a degree or diploma in 2006: Amongst these

- 1 158 graduated in Commerce (39% of these completing BBusSc degrees)
- 587 graduated in Engineering and the Built Environment
- 499 graduated in Health Sciences
- 1 422 graduated in Humanities
- 208 graduated in Law
- 603 graduated in Science

The 2006 graduate total will be augmented by the June 2007 graduation figures as a large proportion of these graduates will be attributed to 2006 rather than to 2007.

The 2006 graduate proportion of all undergraduates (19%) appears to have dropped slightly from 21% in 2005, but it is likely that the June 2007 graduation will result in an increase in this proportion. The proportion of all undergraduates excluded from the university on academic grounds appears to have stabilised at around just 4% of the total undergraduate enrolment. The low levels of academic exclusions and diminished drop-outs in good academic standing may be ascribed to the persistent strong institutional focus on throughput and retention, and have given rise to improved completion rates amongst first-time entering undergraduate cohorts.

Success rates in undergraduate courses have improved steadily in recent years. In 2006, the success rates in 200 - level, 300 - level and 400 - level courses were all in excess of 80%. The success rate in fourth level undergraduate courses appears to have stabilised at around 92-94%.

UCT remains committed to improving its efficiency in relation to student retention and throughput, without compromising quality, particularly as this relates to the continuing transformation of the student body. A heightened focus on student retention has been achieved via the workings and dissemination of the findings of the CHED/IPD Equity and Efficiency Project, which reports through the Admissions and Progressions Committee to the Senate Executive Committee.

Examination of the longitudinal performance of the 2001 first-time entering undergraduate (FU) entry cohorts shows the following:

- 65% of the 2001 FU entry cohort (in comparison with 60% of the equivalent 1997 FU cohort) had successfully completed undergraduate qualifications within five years of entering UCT;
- 15% of the 2001 FU cohorts (in comparison with 17% of the equivalent 1997 FU cohort) had been excluded from UCT on academic grounds during the five-year period of the analysis;
- the rate of drop-out in good academic standing amongst 2006 FU students (a term which applies to all students who leave UCT without completing an undergraduate qualification, and who are also not excluded on academic grounds) was 15%, in comparison with 17% of the 1997 FU cohort;
- a slightly larger proportion of the 2001 FU cohort (5%, in comparison with 4% of the 1997 cohort) were still registered as undergraduates after five years of study.

The lower levels of academic exclusions and diminished drop-outs in good academic standing may be ascribed to the persistent strong institutional focus on throughput and retention, and have clearly given rise to improved completion rates amongst first-time entering undergraduate cohorts.

Full-time Academic Staffing

UCT's most recent HEMIS staffing submission shows that a total of 851 permanent instruction/research or academic staff were employed in 2006. This represents a 13 percent increase over the 2002 figure of 755. The fact that student enrolments grew by just less than 9 percent over the same period implies that academic staffing provision has more than kept pace with growth in the student body.

The proportion of full-time academic staff qualified at the doctoral level in 2006 was 59%. A further 31% of all academic staff held masters level qualifications. Moreover, an examination of the 2006 funded publication units by Faculty (742 in total, in comparison with 656 in 2005) indicates that students across the University could expect to be taught by academic staff actively engaged in research in their particular disciplines.

Social Responsiveness

Following the success of the format of the 2005 Report on Social Responsiveness, which used a case study approach to portray a cross-section of examples of broader University engagement with civic society, 13 qualitative cases were used as the basis of the report in 2006. Together, they provide a rich overview of practice in departments across the University and illustrate a range of activities aimed at addressing critical development needs or challenges in our country, such as HIV/AIDS, unemployment, poverty, disaster mitigation, conservation, women's health, social reconstruction and the provision of physical infrastructure, legal and psychological services in disadvantaged communities. The details emerging from the diverse case studies provide a vividness that enables the audience to perceive aspects of the academic activities of the University as integrally linked to the needs of society.

Collaboration between universities and provincial administration

During the year an historic summit took place between the Premier, provincial ministers and senior departmental officials in the Western Cape and the senior leadership of the four Western Cape Higher Education Universities plus UNISA. The Summit culminated in the signing of a Memorandum of Understanding between the Premier and the Vice Chancellors. Key objectives of the MOU are to:

- Strengthen the contribution of higher education to the regional economy;
- Facilitate the regular sharing of information on the plans of the higher education institutions and the Provincial Government; and
- Promote the Western Cape as a "Learning Region" which can be used to attract people to the region to study.

The MOU will set in motion a three-year plan based in 4 strategic areas, namely, transport and infrastructure, scarce skills, the environment, and social cohesion.

Social responsiveness as a criterion for performance management

In 2006 the Senate approved a revised definition of social responsiveness.

"Social responsiveness is defined as the production and dissemination of knowledge for public benefit (which)

- Demonstrates engagement with external constituencies (and)
- Shows evidence of externally applied scholarly activities"

In addition Senate revised the criteria for assessing the performance of academic staff. The revised criteria reflect a systemic embedding of the notion of social responsiveness in the core activities of research and teaching and learning. In particular Senate decided that:

"All academic staff are expected to exhibit some level of social responsiveness through their teaching and learning, research and/or leadership. At each level (in the academic hierarchy) social responsiveness of a particular type must be demonstrated". (Senate, November 2006)

An enabling framework for Social Responsiveness

An observation of the HEQC Audit Panel was that no structured institution wide framework for SR existed to institutionalise a formal approach to this function. A project has been established to formulate an integrated conceptual framework to sustain, expand and resource social responsiveness.

UCT Libraries

The Libraries include the Chancellor Oppenheimer (Main) Library, nine branches, and major research collections such as the African Studies Library, Manuscripts and Archives and Rare Books. The rich and diverse array of research materials and undergraduate resources includes more than 1.1 million print volumes, with over 16,700 print journal titles. More than 29,000 electronic journals and 200 electronic databases are available via the Libraries' extensive website.

A team of subject-specialist librarians is supported by modern equipment and technologies, high-end computer workstations, audio-visual viewing areas, both intranet and wireless Internet access, and ample photocopying and printing facilities.

One of the most popular facilities is the innovative Knowledge Commons, a dedicated undergraduate research facility, and the first of its kind in Africa, where students can access the Libraries' electronic journals and databases, use quality software and IT equipment, and receive assistance in researching and writing their reports, essays, and assignments.

Research

Ongoing planning to match UCT's research strengths with the national funding environment has enabled the University to optimise participation in the South African Research Chairs Initiative (SARChI) – a brain gain intervention by the Department of Science and Technology (DST) that is being administered by the National Research Foundation (NRF). UCT submitted a robust response to the first call at the end of November 2005 through a structured process of faculty prioritisation aligned with the overall institutional strategy. The first set of 21 National Research Chairs were announced in December 2006, seven of whom are at UCT.

2006 saw the full operational establishment and official launches of UCT's first two Signature Themes, the Marine Research Partnership (now operating under the name of the MA-RE Institute) and the Brain-Behaviour Initiative (BBI). Directors and project managers were appointed for both themes, seed funding was allocated, and the first official research activities commenced during the last half of 2006.

Total research income decreased by about R5.6million or 1.4%, when compared to 2005, despite a 6% increase in private sector contract research income. The major reasons for this decrease are a drop in private sector donations (38% decrease) and THRIP payments from the NRF. Government contract income increased by R6.9million or 35% to R26.9million.

The performance of our researchers through the internationally benchmarked process of peer-evaluation and rating is carried out by the NRF and based primarily on the quality of their recent research outputs. The number of NRF-rated researchers at UCT grew by 22 to 275 during 2006. Three new A-ratings were awarded during this period. A-rated researchers are defined as world leaders renowned for the high quality and impact of their research. UCT remains the top institution nationally in as far as the number of NRF-rated researchers are concerned.

The publication count of subsidy-earning journals being based on the output of the previous year, our most recent audited count reflects the published outputs of 2005. UCT's final allocation of 892.75 units for the 2005 academic year was 18% higher than the previous allocation of 756 units. UCT is currently the top institution in the country for the publication count when taking the relative size of the universities into account.

As part of the Framework for Research Development, the Mellon Visiting Scholars Project was launched in 2006 to strengthen the quality and quantity of research. Faculties participate in this three-year project by identifying their own mentoring objectives as well as suitable high-level experts who could spend some time at UCT and help them achieve their goals through a series of interventions.

The Emerging Researcher Programme (ERP) – another component of the Framework for Research Development – completed its fourth year of operation in 2006. Over this period numbers have grown from an initial 44 to a current 204 active participants, each receiving support in their research development.

A main challenge for the coming year is to shift our benchmarking parameters from the national to the international scene. Since 2003, UCT has been the highest ranked South African and African university, according to the Academic Ranking of World Universities (ARWU)[1] conducted by the Institute of Higher Education at Shanghai Jiao Tong University in China. Through engagement with international benchmarking activities the University will work with a selected set of indictors to make inroads and monitor progress in terms of research excellence on the international stage.

[1] Universities are ranked by a series of comparable indicators of academic or research performance, including alumni and staff winning Nobel Prizes and Fields Medals, highly cited researchers, articles published in Nature and Science, articles in the Science Citation index expanded and the Social Science Citation Index, and the academic performance with respect to the size of an institution.

PART 3 |

MANAGEMENT AND ADMINISTRATION

Changes in Senior Management & Re-structuring

During the year under review the contracts of two Deputy Vice-Chancellors were renewed: Professor Cheryl de le Rey and Professor Martin Hall.

Professor Doug Pitt completed his contract as Dean of Commerce, and Professor Melvin Ayogu, Professor in the School of Economics, was appointed Dean from 1 January 2007.

There was considerable restructuring within some administrative departments. An extensive restructuring process was completed for the Department of Student Affairs, and several management positions were filled. The Office of the Registrar also received attention with the creation of two Deputy Registrar positions for filling in 2007.

Following an earlier restructuring process, Dr James McNamara was appointed Executive Director: Development & Alumni Affairs.

Administrative Systems

supaTsela Project

The supaTsela Project, which will put in place a reliable, flexible and cost-effective ICT infrastructure made substantial progress during 2006. The project as a whole supports teaching, learning and research as well as administrative functions at UCT. Some of the progress highlights for 2006 can be summarised as follows:

- Software has been implemented to control the usage of UCT's internet bandwidth by restricting student download volumes using a monthly quota allocation. The quota restriction does not apply to identifiable academic resources (e.g. online library resources, material on UCT websites, anti-plagiarism software, online learning environments, etc.).
- The implementation of the electronic directories system has continued with incorporation of data for staff (from SAP HR) and for third parties (using a newly designed and developed system). Automated provisioning for staff and third party accounts is largely in place.
- The core and distribution layers of the new high-speed network are in place. The current and new networks were linked in June 2006. Since then users have been gradually migrated to the new network, a process that should be complete by mid-2007.
- All buildings with old network cabling have had this replaced.
- The new server, storage and backup infrastructure has been fully implemented and network file and print services are now being provided to all staff and students from the new infrastructure. This infrastructure is now also being used for the SAP system.
- Liesbeeck Gardens, Leo Marquard, Tugwell Hall and J P Duminy residences are now fully networked and networking of the Forest Hill complex is in progress.
- The GroupWise email and calendar system was implemented for 4,800 staff and 28,000 students. This has provided a robust email system, a calendar system across UCT, a comprehensive web interface, and extended PDA and smart-phone support.
- The ZENworks system imaging tools were installed in all ICTS-managed student laboratories. This has enabled the use of Windows XP in these laboratories, reduced costs for laboratory management, and has allowed more flexibility for software updates. ZENworks implementation has also provided a hardware asset management database, automated software distribution and update facilities and a remote access facility to speed up problem resolution for users.
- Network printing has been simplified and improved by implementation of iPrint software.

The supaTsela Project was originally scheduled for completion at the end of 2006. Project progress has been good, but there were delays in civil works (for installing the new high-speed fibre-optic backbone for the network) and in the implementation of the electronic directories system, both of which have had "knock-on" impact on other aspects of the project. Project completion is now expected by end-2007. The financial impact of the delay will be minimal.

SAP upgrade

UCT signed a new license agreement with SAP in October 2005 that provided for our upgrading to the new mySAP Business Suite product. This upgrade, from SAP R/3 version 4.6C, was a very major one as it required "leap-frogging" three intermediate versions of SAP software. Prior to the software upgrade, the SAP system was migrated to the new hardware infrastructure put in place by the supaTsela Project and to a new operating system (SUSE Linux). The upgrade was due for completion by mid-2007.

PeopleSoft Campus Solutions

PeopleSoft went live in January 2006 for student registration, fees and financial aid. In May 2006, processing of all applications for 2007 began on PeopleSoft. All of these processes are now fully live and supported on PeopleSoft. No processing occurs on the Heritage system, which is only used to look up historical student financial records where necessary. The 2006 registration process was bedeviled by sporadic power cuts and some problems with system response. The vendors provided a solution for the response time problem, which has been implemented. Much of 2006 was spent on bedding down system functions, and identifying areas where system enhancements and/or business process changes should be considered. This work will continue in 2007. Initial user training before and during 2006 concentrated on basic PeopleSoft functions; the emphasis has now shifted to business process training, building on the necessary foundation of basic system familiarity.

Staffing matters

The year under review included, inter alia, the following developments in the field of staffing:

- A review of the strategic role of the Human Resource function;
- Continuing the improvement of the University Performance Management system for Professional, Administrative and Support staff in consultation with staff representative bodies;
- Commencing a review of contract staff policy, this being a recommendation arising from the Institutional Quality Audit;
- Reviewing and implementing Executive Remuneration policy and procedure in terms of the King Code and the HESA report on Executive Remuneration in Higher Education;
- The development of a staff development policy and supporting structures;
- The design and planning of an academic Head of Department development programme;
- A continued focus on the rigorous implementation of Employment Equity plans; and
- A review of the University sexual and racial harassment policy and procedures.

PROFESSOR N S NDEBELE

VICE-CHANCELLOR and PRINCIPAL

6 JUNE 2007

REPORT ON THE HIGHER EDUCATION QUALITY COMMITTEE AUDIT VISIT

The University of Cape Town (UCT) was audited in May 2005. The final report was received in March 2006. It is evident that, in compiling the final report of the audit, the panel drew heavily on information contained in our own portfolio and has acknowledged efforts UCT is already making in relation to some of the areas around which recommendations have been made. In that sense, the report has affirmed and validated much of UCT's own self-evaluation. As a result the University was satisfied with the report.

After receiving the final report Senate constituted a Steering Committee to oversee the process of engaging with the final report of the audit and developing the University's Quality Improvement Plan (UNIQUIP). The Steering Committee consisted of two DVCs, the Deans, the Director of the GSB, the SRC President and the Director of Institutional Planning.

The University's Quality Improvement Plan, submitted to the HEQC in December, was based on contributions from the faculties, the newly elected and outgoing SRCs, the faculty councils, appropriate professional and support departments and faculty councils. The plan reflects a balance between faculty specificities and university wide imperatives. The bottom-up approach accommodates different faculty contexts and priorities in relation to the list of areas for improvement. The plan is organised around eight strategic objectives, namely:

- Strategic Objective One: To strengthen articulation between teaching, research and social responsiveness and performance-oriented planning.
- Strategic Objective Two: To accelerate and strengthen transformation.
- Strategic Objective Three: To promote equity of access for students.
- Strategic Objective Four: To improve the quality and profile of UCT's graduating class.
- Strategic Objective Five: To improve the quality of the student experience.
- Strategic Objective Six: To improve research productivity and research planning.
- Strategic Objective Seven: To promote staff development.
- Strategic Objective Eight: To develop an integrated conceptual framework for strengthening and expanding social responsiveness.

The University operates within a multi-year plan and budget. Each year the University reviews its objectives and attempts to allocate resources to support approved strategic initiatives. Impact measures have been identified for each of the Strategic Objectives. These measures will be used to evaluate the effectiveness of the intervention strategies. The planning and budgeting process for 2008 will integrate objectives in the Improvement Plan into the overall University Plan and Budget. This process will include an annual review of progress at the end of March each year and an assessment of the resource implications of planned activities for the following year. Accordingly the timelines in the plan are for March, 2008, 2009 or 2010. Adjustments to the plan will be made each year in the light of the going reviews.

PROFESSOR N S NDEBELE

VICE-CHANCELLOR and PRINCIPAL

6 JUNE 2007

REPORT OF THE INSTITUTIONAL FORUM

The Institutional Forum is a statutory body set up by the Higher Education Act 101 (1997) to advise Council on issues affecting the institution, including –

- The implementation of the Higher Education Act and the national policy on higher education;
- Race and gender equity policies;
- The selection of candidates for senior management positions;
- Codes of conduct, mediation and dispute resolution procedures;
- The fostering of an institutional culture which promotes tolerance and respect for fundamental human rights and creates an appropriate environment for teaching, research and learning; and
- Performing functions determined by Council.

The UCT Institutional Forum met nine times in the course of 2006. The meetings can be categorised as regular meetings, special meetings, workshops and extended meetings. On occasions where decisions were required but meetings could not be arranged, Circulars from the Co-Chairs were sent out to members. Four Co-Chairs' circulars were circulated. Many of the special meetings were scheduled around the appointment of senior managers in the University.

Agenda items at the meetings of the Institutional Forum during 2006 included a review and refinement of the operational guidelines of the Institutional Forum; clarification of the relationship of the Institutional Forum with Council; a review of the appointment and selection procedures of senior management; commenting and advising on the Employment Equity Plan for Senior Management, the University Employment Equity Plan 2007-2010 and the Employment Equity report for 2006.

The Institutional Forum also commented on the University Climate Intervention Initiative – the Khuluma-Mamela workshops and colloquia; the Student Climate Survey; the SRC proposal on Cooperative Governance and the raising of the South African Flag.

In a one day workshop with the Vice Chancellor, the Institutional Forum was provided an overview of UCT's Transformation initiatives. Focus areas in this overview included Teaching and Learning; Social Responsiveness; Employment Equity; Institutional Culture; Support and Development and the work of UCT's support units, the HIV/AIDS Coordinating Unit; the Disability Unit and the Discrimination and Harassment Unit.

The Institutional Forum has formally advised Council on Senior Appointments, the University Employment Equity Report and Plan and the Code of Conduct for Outsourced Workers. The Institutional Forum has also monitored and advised on the University Quality Improvement Plan (UNIQUIP) and the University Code of Conduct for Outsourced Workers.

During 2006, the Institutional Forum established a more consolidated relationship with Council. The Co-Chairs of Institutional Forum Meetings are allocated a space on the agendas of Council and they are invited to Council meetings to formally present the advice of the Institutional Forum.

In 2007, the Institutional Forum plans to strengthen its advisory role on race and gender equity by working more closely with the three advisory forums that are linked to student equity, employment equity and institutional culture.

PROFESSOR M J HALL	**MS V SCHOLTZ**	**VACANT**
CO-CHAIR	**CO-CHAIR**	**CO-CHAIR**
6 JUNE 2007		

COUNCIL STATEMENT ON CORPORATE GOVERNANCE

This statement is intended to enable readers of the Annual Report to obtain a better understanding of the governance and legal structure of the University.

The Council considers that it has materially complied with the requirements of the Higher Education Act, 1997, and the Regulations for Annual Reporting by Higher Education Institutions published under that Act (which incorporates by reference and requires compliance with the Code for Corporate Practice and Conduct, as set out in the second King report (King 2) insofar as it can apply to public Higher Education Institutions).

The Council of the University

The University's vision is to be a world class African University educating for life, addressing the challenges facing our society and equipping our students with life-long skills.

The Council is enjoined to govern the University, and has recorded that, in governing its key functions and responsibilities are: to decide policy; to influence the affairs of the University; to make key appointments; to make all financial appropriations and decide fees to be charged; to report to the State; and to require the Vice-Chancellor and the executive and the Senate to account to it for their areas of responsibility.

Council and Council Committees

The University is incorporated in terms of the Higher Education Act, 1997, and the Statute of the University of Cape Town, (promulgated under Government Notice No. 1199 of 20 September 2002, and as amended by Government notice 259 of 26 February 2004) with full juristic capacity.

The legislation provides for two governance bodies and one advisory body with specific mandates; the Council, which governs; the Senate, which is responsible for teaching and research; and the Institutional Forum, a stakeholder body, which advises the Council. Both Council and Senate are supported by specialist committees and working groups.

The Council has arranged, in an effort to promote accountability and transparency that the papers of Senate, (including the monthly Principal's Circular which includes a report on Council's work) the Institutional Forum, and many UCT committees are published on an open governance intranet, and for Council papers, other than those dealing with commercial interests and individuals, to be available to staff and student bodies.

The Council as now constituted complies with the requirements of the Act as amended. The term of the Council now in office runs to 30 June 2008.

The Council's key functions and responsibilities are to ensure that:

- The University has clear strategic goals and objectives;
- The Executive Officers (the Vice-Chancellor and the Deputy Vice-Chancellors) are held to account in achieving these;
- The University's financial position is sound in the short term and the long term;
- No fees are set, and no financial appropriations made, without its approval;
- Risk management and internal controls are in place;
- All its members (staff, students, and alumni), donors, customers, and suppliers are treated in an appropriate manner;
- The University complies with all relevant laws, regulations and accounting policies; and
- The committees and sub-committees necessary to achieve the above are in place, are properly constituted with a relevant composition and have appropriate terms of reference and reporting procedures.

Members of Council are not remunerated, but where they travel from out of Cape Town they may be reimbursed for travel expenses incurred. In order to ensure that there is both no actual and no perceived conflict of interest, each Council member, all senior managers, and all Committee members are required to make an annual declaration of interests, to declare any conflict or potential conflict ahead of discussion of the relevant issue; and to recluse themselves should any such issue arise.

The Council is supported by a standing Executive Committee. Council has reserved to itself all major issues, and the Executive Committee expedites the work of the Council. The Council and its Executive Committee met in alternate months. The following tables summarise attendance by members at Council and EXCO meetings in 2006.

Attendance at Council Meetings – 2006

2006	Mar	May	Jun	July	Sept	Oct	Dec	%
DG Aschman	P	P	P	P	P	P	P	100
D Budlender	P	P	Ap	P	P	P	Ap	71
GM Budlender	P	P	P	P	P	P	P	100
A Button	P	P	Ap	Abs	P	P	Ap	57
CM de la Rey	P	P	P	Ap	P	P	P	86
V Doo	P	P	P	P	Ap	P	P	86
MP Ensor		P	P	P	P	P	P	100
PI Folb	P	P	P	Ap	P	P	P	86
JJ Gauntlett SC	Ap	Ap	P	Ap	P	P	P	57
E Goliath	P	P	P	P	P	P	P	100
MJ Hall	P	P	P	P	P	P	Ap	86
S Hlongwane	P	Abs	Ap	Ap	P	Abs	Abs	29
A Jakoet							P	100
R Kadalie	P	P	P	P	P	P	P	100
ER Kalula	P	P	Ap	P	P	Ap	P	71
VP Khanyile	Ap	Ap	Ap	Abs	Ap	Ap	Ap	0
O Kinahan					Ap	P	P	67
PSG Leon	Ap	P	P	P	P	P	P	86
B Mayosi	P	P	Ap	Ap	Ap	Ap	P	43
L Mpahlwa	Ap	Ap	Ap	Abs	Abs	P	Ap	14
NS Ndebele	Ap	P	P	P	P	P	P	86
T Nhlapo	Ap	P	P	P	P	P	P	86
E Patel	P	P	Ap	Ap	Ap	P	P	57
TD Petersen	P	P	P	Ap	P	P	P	86
LF Platzky	P	P	Ap	P	P	P	Ap	71
BD Reddy	*	*	*	*	*	*	*	*
RB Rosenthal	Ap	P	P	Ap	P	P	P	71
C Sonn	Ap	Abs	Ap	Abs				0
J Terblanche	P	P	Ap	P	Ap	P	P	71
M A Thompson	P	P	P	Ap	P	P	Ap	71
HM Wesso	Ap							0
ME West	P	P	P	P	P	P	P	100

P = Present
Ap = Apology
Abs = Absent
* = On sabbatical

	= Not a Council member during highlighted periods

Attendance at Council EXCO Meetings – 2006

2006	Feb	April	Jul	Aug	Nov	%
GM Budlender	P	P	P	P	P	100
JJ Gauntlett SC	P	Ap	Ap	P	Ap	40
S Hlongwane	P	P	Ap	P	Abs	60
R Kadalie	P	P	P	P	Ap	80
ER Kalula	P	P	P	P	P	100
NS Ndebele	P	P	P	P	P	100
TD Petersen	Ap	Ap	Ap	Ap	Ap	0

P = Present
Ap = Apology
Abs = Absent
* = On sabbatical

Code of Ethics

The Council is committed to integrity and ethical behaviour in all its dealings. Council members and all staff who have decision-making functions must subscribe to an ethical code.

The importance of ethical behaviour is particular in all the University's academic work, and a standing committee of Senate, supported by faculty-level committees, promotes and ensures the highest ethical standards in teaching and research, and is supported by faculty level ethics committees.

Executive Committee of Council

The Executive Committee of Council consists of the Chair and Deputy Chair of Council, four members of Council and the Vice-Chancellor.

Council Appointments Committee

The Council Appointments Committee considers nominations for vacancies in the Council in terms of the Statute.

The University Audit Committee

The University Audit Committee is a standing committee of Council and consists of three external council members (including the Chair), one external person and the Vice-Chancellor. It met three times in 2006, and both internal and independent auditors have unrestricted access to it. A standing Risk Management Committee, chaired by the Vice-Chancellor, supports the Committee.

The Audit Committee's responsibilities are to:

- Ensure that there is an effective process for assessing and managing risk;
- Assess the financial statements for reasonability and accuracy, and for compliance with accounting policies and with the regulations laid down by the Minister under the Higher Education Act;
- Recommend to Council the approval of the Annual Report, incorporating the Annual Financial Statements;
- Review and approve the scope of the internal audit programme;
- Recommend the appointment and continuance of the independent external auditors;
- Review the scope of the audit conducted by the independent external auditors; and
- Review, on its own and with the help of internal audit, the adequacy and effectiveness of internal control.

The University Finance Committee

The University Finance Committee is a standing committee of Council. The Finance Committee advises Council on financial strategy, makes recommendations on annual revenue and capital budgets and monitors and reports on progress against these budgets. It met seven times during 2006.

The Council Remuneration Committee

The Council Remuneration Committee is a standing committee of Council and consists of the Chair and Deputy Chair of Council, the Chairs of the Audit and the Finance Committees and the Vice-Chancellor. (In that the Deputy Chair is Chair of Finance, the Council has appointed an additional lay Council member to the committee). It is responsible for:

- Advising the Council on remuneration policy;
- Setting mandates for consultation and negotiations, on pay and conditions of service, with staff bodies and trade unions; and
- Determining the pay of senior leadership group members in terms of the performance management system.

The University Student Development and Services Committee (USDSC)

The USDSC is established in terms of S27 (3) of the Higher Education Act, 1997 as amended. This standing committee of Council is made up of one member of the Executive, members of the academic staff and student representatives, and includes lay members of Council. It is the structure established in terms of the Higher Education Act, 1997 to advise the Council on student matters. Council requires the USDSC to report twice a year on student concerns and on how these are being addressed.

The University Human Resources Committee

This standing committee advises Council on HR policy, is responsible for advising Council on employment equity policy and plans, and for keeping abreast of staff issues and staff concerns. The committee met three times during 2006. A Council member chairs this Committee.

The University Building and Development Committee

The UB&DC advises Council on physical development and oversees major capital projects. It includes nominees of the Cape Provincial Institute of Architects, and one of its functions is to advise on the development of the University's campus-assembly of spaces and buildings. The committee met fourteen times during 2006.

The University Strategy Committee

Chaired by the Vice-Chancellor, consisting of Council Members, and elected staff and student representatives, this standing committee advises Senate and Council on strategy.

G M BUDLENDER
CHAIR OF COUNCIL
6 JUNE 2007

PROFESSOR N S NDEBELE
VICE-CHANCELLOR

REPORT ON INTERNAL ADMINISTRATION, OPERATIONAL STRUCTURES AND CONTROLS

The University maintains systems of internal control to mitigate identified risks and to safeguard its assets. The University has a documented organisational structure and division of responsibilities, established policies and procedures, which are communicated throughout the University.

Information systems utilising modern information technology are in use throughout the organisation. All have been developed and implemented according to defined and documented standards to achieve efficiency, effectiveness, reliability and security. A major implementation of a proprietary (PeopleSoft) system supporting student administration transactions from admissions through to graduation, went live at the end of 2005 although certain aspects of the implementation, particularly those related to fee debtors and financial aid, only came on stream during 2006. The PeopleSoft student system is necessarily linked to our Residence Management System (to assist in the transactions necessary to administer the University's 5,600 bed student housing enterprise) and to the existing ERP systems supporting Finance and Human Resources.

We are happy to report that our external auditors have expressed satisfaction with the financial aspects of the PeopleSoft implementation. Data migration, which had to be correct, was also subject to both internal and external audit review.

The University applies what it considers to be acceptable standards to protect privacy and ensure control over all data, including disaster recovery and back-up procedures. The development, maintenance and operation of all systems are under the control of competent, trained staff.

Internal Audit monitors internal control systems and aims to assist line management in ensuring the adequacy of such controls. During the year under review a number of minor frauds were uncovered. Steps taken to recover the losses have in all cases been successful and any control weaknesses exposed have been rectified. The Audit Committee's policy that perpetrators will be prosecuted and named has been applied where appropriate in order to ensure that fraud is appropriately dealt with.

Council, through its Audit Committee, provides oversight of the financial reporting process.

Report on Risk and the Management of Risk and on Quality Assurance

The University enjoys a reputation for the high quality of its graduates, of its research and scholarship, for sound financial management and for safety at work. Reputational, financial and other areas of risk exposure are priorities for the Council, for key members of the executive, and for the bodies charged with the management of risk. These comprise primarily the Audit Committee and its Risk Management and Physical Risk Co-ordinating sub-committees, the Quality Assurance Working Group, and Internal Audit.

A major review of the University's quality assurance mechanisms took place in 2005 through the Institutional Audit conducted by the Higher Education Quality Committee (HEQC), a statutory body established in terms of the Higher Education Act, 1997. The HEQC made 13 commendations (on areas where it found examples of good practice, strength, excellence and innovation) and 16 recommendations (on areas identified for improvement) and progress in addressing these issues has been dealt with in the separate HEQC report.

Major power outages occurred during the first quarter of 2006. These affected both registration and the start of the academic term. Special measures had to be implemented to contain the impact on operations both in the short and longer terms. These measures included the provision of emergency power and lighting.

The Risk Management Committee (RMC), which reports to the Audit Committee, has been established with reference to the guidelines outlined in King 2. The Committee consists of the Vice-Chancellor (Chair), a Deputy Vice-Chancellor, two Faculty Deans, the Executive Directors of Finance and Properties & Services, the Registrar and up to two other appointees nominated by the Vice-Chancellor. The Audit Committee has also appointed one of its non executive Council members as its representative on the RMC.

The Physical Risk Co-ordinating Committee reports to each meeting of the RMC and includes in its reports items from its sub-committees, being the Genetically Modified Organisms Committee, the Health and Safety Committee and the Radiation Control Committee.

The RMC met on three occasions during 2006. During these meetings the Committee:

- Received and considered reports on Information Technology, Communication and Development, Human Resources, and Student Development related risks. In respect of each risk, mitigating controls were identified, assessments of the risk exposure were considered, actions taken and responsibilities assigned were reviewed;
- Received reports from the Physical Risk, Safety and Crime Prevention Co-Coordinating Committee (including its subcommittees); and
- Received reports at each meeting in respect of crime both on the campus and on its fringes and the steps taken to reduce the incidence and the impact of criminal activities.

During the year under review the Audit Committee has, either directly or through its Risk Management Committee, reassessed areas of risk and redefined accountable and responsible individuals for the management of all key risk areas. This process included a review of the consequence of failure in each area, the effectiveness of controls, and the management gap between the actual and the desired control effectiveness, as outlined above.

The Audit Committee is satisfied that, at a macro level, risks have been identified and appropriately addressed. The Committee is, however, concerned that this process now needs to be addressed within operational areas, creating a risk culture across the greater university community. Extending risk awareness within the University will be a major focus of risk management for 2007 and beyond.

The risk of HIV/AIDS among staff and students continues to be addressed through a comprehensive direct aids intervention programme, which includes educational programmes, voluntary counselling and testing, and the provision of drug therapies to those who test HIV positive. A parallel programme of support to students who are HIV positive or who have developed AIDS is in operation, to complement a long running HIV/AIDS education programme.

The Quality Assurance Working Group operates largely in the academic domain. Its remit is to help the University put in place the necessary quality assurance mechanisms that will give assurance on teaching and learning, on research, and on social responsiveness. These mechanisms constitute a very important subset of risk management in a university environment. Further reports on its work are included in the report of the Senate. It was actively engaged in the preparation of the self-assessment report submitted to the HEQC, and will be involved in the self-improvement plan designed to strengthen those areas of quality assurance that had been identified by us and were the subject of recommendations by the HEQC.

Financial risk decisions are taken within limits decided by Council on the advice of the Finance and Investment Committees.

Insurance policies are in place to cover risk. These are monitored by the Audit Committee, which must satisfy itself that cover against fire and related risks, accidental damage, business interruption, theft, money and fidelity and, critically, both public and employee liability is considered adequate.

M A THOMPSON	Hugh Amoore **H T AMOORE**
CHAIR OF AUDIT COMMITTEE	**REGISTRAR**
6 JUNE 2007	**(And responsible for Internal Audit)**

ANNUAL FINANCIAL REVIEW

Financial Policy

Securing Financial Stability for UCT

Our financial policy is to provide for sustainable operations and the ability to invest in educational initiatives consistent with our mission. We practice conservative financial management, by striving for efficient recurrent operations which generate funds to support strategic initiatives.

UCT plans within a multi-year framework. The financial policy is realised by integrating the following areas:

- *We target a surplus from Council Controlled recurrent operations to provide a hedge against unforeseen circumstances and to enable new initiatives.*
- *Capital expenditure is undertaken in terms of the strategic framework, and is constrained by affordability as evidenced by available cash resources and borrowing capacity.*
- *Debt finance is used conservatively if required and further constrained by the ability to service the debt, in terms of both the interest and capital repayments.*
- *Investment income after deducting all financing costs, being volatile in nature, is only used to seed new initiatives and other strategic choices.*

Financial Management

UCT pays particular attention to financial management, seeking to ensure a combination of good practice, stewardship and forward projection that provides the University with the financial resources needed to meet its objectives.

The comprehensive University financial plan consists of seven distinct yet interrelated components:

- Continuing educational operations. These encompass the main recurrent operating activities that provide and support teaching and learning.
- Research and other operations similarly dependant on specific funding.
- Staff and student housing operations.
- Investment income and financing expenditure.
- Capital expenditure. These include the acquisition of all assets in excess of R15,000.
- Capital structure and financing.
- Cash flow planning.

Recurrent operations

The essence of our high-level financial plan focuses on sustainability. This is achieved by realising a surplus from Council controlled recurrent operations. Currently our medium-term view is to achieve a “recurrent operating surplus” of 5% of total recurrent operating income. This provides a hedge against unforeseen events. The realised “recurrent operating surplus” is applied to expenditure on strategic needs in the following year, and to enhance medium-term stability.

Capital expenditure

We evaluate the expenditure on capital items separately from operating expenditure, and it is limited by:

- Available cash resources; the depreciation charge suggests (but does not entitle) an amount available for the replenishment of existing assets.
- Donations from external sources.
- Such portions of the strategic spend allocated to capital expenditure.

- For major infrastructural developments, the borrowing capacity of the University's balance sheet, and the debt servicing capacity of the recurrent operations.

Other expenditure

The sum of the allocation from the "recurrent operating surplus" of the previous year as described above, and the net financing and investment income in the previous year may be used to support further initiatives consistent with UCT strategies. Should the operating result be a deficit the first use of the financing and investment income will be to reducing or "paying off" the deficit.

Medium term budget framework

The financial plans described above are given form through the Medium Term Budget Framework (MTBF), which is steered by the University Finance Committee, reporting to Council. The MTBF provides a financial framework within which to pursue the University's goals, for a period usually of four or five years. While the MTBF has a multi-year time horizon, it is reviewed annually for its continued relevance given the changing environment. It is informed by the recent operating performance of the University in particular, as well as the other financial components detailed earlier. It takes cognisance of the strategic imperatives and risks facing the University. Given these aspects, a desired financial position is targeted at the end of the framework period, and the MTBF constructed to provide a corridor of opportunities and constraints within which to operate.

Financial Highlights 2006

The annual financial statements cover all the activities of the University, including non-recurrent income and expenditure, specifically designated activities, investment activities and financing transactions; they thus provide a comprehensive overview of the financial position of the University and its progress over the past year. There have been no major changes in the operations during the year.

During 2005 International Financial Reporting Standards (IFRS) were adopted. All organisations were required to elect whether they would remain with South African Statements of Generally Accepted Accounting Practice or adopt the IFRS. UCT elected to follow best practice, and convert to IFRS.

Key features of the financial results for 2006 were:

1. Recurrent operating income grew at a faster rate than recurrent operating expenditure. This follows two years in which the growth in expenditure exceeded that in income. The reversal of the negative trend is mainly due to state subsidies growing at above inflation for the first time in many years.
2. Major revenue streams that changed significantly in 2006 were:
    - An increase in tuition and other fee income of 9.2%, although student numbers dropped slightly below the previous year's. On the other hand, residences operated at full capacity and the fee increases for this activity reflected increased operating costs driven mainly by the implementation of a code of conduct in respect of outsourced workers. The code of conduct included, inter alia, enhancements to the minimum wage levels as required by the University;
    - A 12.7% increase in service income.
3. Total expenditure increased by 4.4% (2005 7.1%), mainly due to:
    - Stabilisation in personnel cost on completion of the alignment to market related salaries for all categories of staff.
    - Negligible finance costs following the settlement of the remaining long term liability in 2005.
4. The University's net cash position amounted to R317.1 million (2005 R329.5 million), after investing a further R136.7 million in fixed assets. A significant portion of this cash is, however, specifically earmarked for designated activities, research activity being the largest contributor.
5. The University's non-current liabilities rose by R5.2 million, following the repayment of the Transitional Retirement loan. A major portion of the total liabilities relating to employee benefits (R186.6 m) represents provisions that do not involve a cash commitment.

6. The University's overall operating surplus rose from R193.9 million to R325.0 million, and the surplus attributable to Council controlled unrestricted funds increased from R15.1 million to R47.9 million.
7. University expenditure on bursaries and financial aid increased by 3.2% to R105.3 million, while the National Student Financial Aid Scheme and the National Research Foundation provided a further R39.8 million and R11.3 million respectively to UCT students. In addition, students attending UCT attracted a further R79.7 million in Public and Private sector funding.
8. Designated and endowed investments rose from R1,304.6 million to R1,637.6 million, as a result of the continued strength in equity markets. Growing the free endowment continues to be a focus incorporated in the principles of the medium term budget framework. The UCT Foundation contributed R28.1 million to UCT activities, of this R6.2 million was undesignated.
9. Unrestricted Council controlled funds rose from R532.9 million to R592.9 million; it should be noted, however, that much of this is not supported by readily realisable assets, being primarily invested in buildings and plant.

The results for the core recurrent unrestricted operations are shown in the table below. They reflect the sustainable operating activities under the control of Council. They show the narrow margin between income and expenditure, which emphasises the need for continued financial discipline to achieve the targets embodied in the Medium Term Budget Framework to ensure sustainability.

Recurrent Unrestricted Council Controlled Operations

	2006 R'm	2005 R'm	2004 R'm	2003 R'm	2002 R'm	2001 R'm	2000 R'm
RECURRENT INCOME	**1,083**	**992**	**954**	**869**	**772**	**696**	**602**
State appropriations-subsidies & grants	570	513	496	460	427	395	352
Tuition and other fee revenue	401	364	330	290	241	213	185
Rendering of services	106	97	102	91	88	75	61
Donations and gifts	6	18	26	28	16	13	4
RECURRENT EXPENDITURE	**1,078**	**1,013**	**931**	**837**	**760**	**691**	**681**
Personnel	681	644	574	511	452	430	397
Other operating expenses	342	313	305	271	260	210	229
Bursaries and financial aid	40	41	40	33	33	30	24
Depreciation	15	15	12	22	15	21	31
RECURRENT OPERATING SURPLUS/(DEFICIT)	**5**	**(21)**	**23**	**32**	**12**	**5**	**(79)**

The Future

The financial management activities of the University are focused on supporting the key strategic thrusts identified by the University's leadership and endorsed by Council, while ensuring appropriate levels of controls and discipline in the various financial processes. Significant progress has been made over recent years in improving the budget process, review system and aligning resource allocation with UCT objectives. The emphasis on the appropriate allocation of resources will continue to grow. Further, the University Finance Committee will continue its focus on the following key issues:

- To continue to build awareness within the University community of the importance and relevance of effective financial management, via broad involvement in the budgeting process, the provision of effective management information and ensuring timeous and effective reporting of results.

- To provide a suitable infrastructure that enhances the University's ability to attract and retain the quality of staff needed to grow the teaching and research capability. Such an infrastructure also helps in attracting quality students. Activities over recent years towards these ends include:
  - Significantly increased contributions to research activities;
  - Improvements in salaries for all staff;
  - A major overhaul of the entire information technology infrastructure;
  - A transportation system linking the major campuses to residences, park and ride facilities, transport hubs and selected commercial locations;
  - The ongoing development of the residence infrastructure;
  - New and significantly refurbished academic buildings; and
  - An integrated student system with enhanced academic and administrative capabilities.
- Creating the capacity for proper planned renewal and maintenance of campus facilities. The University is committed to reduce the backlog on maintenance, having increased expenditure on maintenance significantly over recent years. The backlog will continue to receive high priority till it has been eliminated.
- Identify future needs at an early enough stage to enable cohesive financial planning.
- To help develop a more nuanced approach to financial aid and bursaries so as to enhance our affordability and attractiveness to our target students.

A financial framework was adopted by Council which makes provision for continuous improvements to create capacity for strategic spending. It also provides an integrated approach to financial planning whereby the operating budgets are coordinated with investment income, capital expenditure, free cash, and financing policies. While we have begun to address the backlog of demands for spending and development, the finances of the University are finely balanced within pressure from diverse constituencies both internally and externally. Care will need to be taken that the new demands are managed within the University's overall financial capacity.

TD PETERSEN
CHAIR: FINANCE COMMITTEE
6 JUNE 2007

EO ULIANA
EXECUTIVE DIRECTOR: FINANCE

CONSOLIDATED ANNUAL FINANCIAL STATEMENTS

COUNCIL'S STATEMENT OF RESPONSIBILITY FOR THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2006

Council is responsible for the preparation, integrity and fair presentation of the financial statements of the University of Cape Town.

The financial statements presented on pages 28 to 58 of this annual report for 2006 have been prepared in accordance with IFRS and the requirements of the Minister of Education as contained in the manual on annual reporting issued by the Department of Education, and include amounts based on judgements and estimates made by management as more fully laid out in the notes to the financial statements. Council also prepared other information as required to be included in this annual report and is responsible for both its accuracy and consistency with the financial statements.

The 'going concern' basis has been adopted in the preparation of the financial statements. The Council has no reason to believe that the University of Cape Town is not a going concern in the foreseeable future based on forecasts and available cash resources. The financial statements support the viability of the institution.

The financial statements have been audited by Ernst & Young who have been given unrestricted access to all financial records and related data, including minutes of the meetings of Council and all its committees. Council believes that all representations made to the independent auditors during their audit were valid and appropriate.

Approval by Council of the Annual Financial Statements

The annual financial statements set out on pages 28 to 58 were approved by the University Council on June 6 2007 and are signed on its behalf by:

G M BUDLENDER

CHAIR OF COUNCIL

T D PETERSEN

CHAIR OF FINANCE COMMITTEE

PROFESSOR N S NDEBELE

VICE-CHANCELLOR

6 JUNE 2007

PROFESSOR E O ULIANA

EXECUTIVE DIRECTOR OF FINANCE

ERNST & YOUNG

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REPORT OF THE INDEPENDENT AUDITORS TO THE COUNCIL OF THE UNIVERSITY OF CAPE TOWN

We have audited the annual financial statements of the University of Cape Town, which comprise the balance sheet as at 31 December 2006, the income statement, the statement of changes in fund balances and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 28 to 58.

Council's Responsibility for the Financial Statements

Council is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the trustees, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the University of Cape Town as of 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Minister of Education in terms of S41 of the Higher Education Act 101, 1997 (as amended).

Ernst & Young Inc.

ERNST & YOUNG INC.

REGISTERED AUDITOR

Cape Town

6 June 2007

UNIVERSITY OF CAPE TOWN
CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2006

	Note	2006 R'000	2005 R'000
ASSETS		2,899,369	2,459,905
Non-Current Assets		2,457,639	2,016,843
Property, plant and equipment	5	810,481	704,590
Investments	6	1,637,612	1,304,611
Investments in associates	7	-	-
Non-current receivables	8	9,546	7,642
Current Assets		441,730	443,062
Inventories	9	351	287
Accounts receivable and prepayments	10	97,099	81,608
Loans to employees	10	3,440	7,046
Student fees receivable	10	22,553	20,012
Current portion of investments	6	1,159	4,643
Cash at bank and cash equivalents	11	317,128	329,466
ACCUMULATED FUNDS AND LIABILITIES		2,899,369	2,459,905
Accumulated Funds		2,633,807	2,182,773
Non-distributable funds		1,326,116	1,028,048
Endowed funds		890,633	707,243
Revaluation reserve		435,483	320,805
Restricted funds designated for specific activities		714,779	621,838
Education and general		610,086	542,557
Student and staff accommodation		104,693	79,281
Unrestricted council controlled funds		592,912	532,887
Non-Current Liabilities		147,183	142,011
Interest bearing borrowings	12	6,153	10,261
Provisions – employee benefits	13	141,030	131,750
Current Liabilities		118,379	135,121
Accounts payable and accrued liabilities	14	59,203	59,516
Student deposits		9,589	13,338
Provisions – employee benefits	13	45,600	43,050
Provisions – other	15	-	11,250
Current portion of interest bearing borrowings	12	3,987	7,967

UNIVERSITY OF CAPE TOWN
CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in R'000)

	Note	Education and General						
		Council Controlled Unrestricted	Specifically Funded Activities Restricted	**Sub Total**	Student and Staff Housing Restricted	2006 **TOTAL**	2005 **TOTAL**	**Change %**
TOTAL INCOME		1,127,030	700,982	1,828,012	140,369	1,968,381	1,767,396	11.4
Recurrent Revenue		1,121,818	539,715	1,661,533	140,369	1,801,902	1,681,373	7.2
State appropriations-subsidies and grants	16	570,168	108,534	678,702	-	678,702	624,150	8.7
Tuition and other fee revenue		400,660	-	400,660	116,373	517,033	473,365	9.2
Income from contracts		393	202,896	203,289	-	203,289	189,257	7.4
Rendering of services		105,679	60,504	166,183	21,482	187,665	166,539	12.7
Donations and gifts		5,575	94,974	100,549	-	100,549	127,370	(21.1)
Sub-Total		1,082,475	466,908	1,549,383	137,855	1,687,238	1,580,681	6.7
Interest and dividends	17	39,343	72,807	112,150	2,514	114,664	100,692	13.9
Non-Recurrent Income		5,212	161,267	166,479	-	166,479	86,023	93.5
(Loss)/profit on disposal of property, plant & equipment		(129)	(196)	(325)	-	(325)	2,504	-
Profit on sale of investments		5,341	161,463	166,804	-	166,804	83,519	99.7
TOTAL EXPENDITURE		1,079,131	450,191	1,529,322	114,071	1,643,393	1,573,488	4.4
Recurrent Expenditure		1,079,131	450,191	1,529,322	114,071	1,643,393	1,573,488	4.4
Personnel	18	680,680	187,346	868,026	17,591	885,617	830,237	6.7
Other operating expenses	19	342,248	187,073	529,321	91,597	620,918	602,865	3.0
Bursaries and financial aid		40,179	65,098	105,277	-	105,277	101,988	3.2
Depreciation	5	14,711	10,614	25,325	4,669	29,994	27,599	8.7
Sub-Total		1,077,818	450,131	1,527,949	113,857	1,641,806	1,562,689	5.1
Finance costs	20	1,313	60	1,373	214	1,587	10,799	-
NET SURPLUS		47,899	250,791	298,690	26,298	324,988	193,908	67.6

UNIVERSITY OF CAPE TOWN
CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED 31 DECEMBER 2006

(All amounts in R'000)

		Non-Distributable		Funds Restricted for Specific Activities		Unrestricted Funds	
	Note	Endowed Funds	Revaluation Reserve	Education and General	Student and Staff Housing	Council Controlled	TOTAL
FUND BALANCES AS AT 1 January 2005		616,941	154,004	456,563	71,640	517,240	1,816,388
Realised gains on available-for-sale investments	6	-	(83,519)	-	-	-	(83,519)
Fair value movement in available-for-sale investments	6	-	250,320	-	-	-	250,320
Capital inflows – endowments received		5,676	-	-	-	-	5,676
Total income and expense for the year recognised directly in funds		5,676	166,801	-	-	-	172,477
Net surplus 2005		-	-	170,894	7,944	15,070	193,908
Total income and expense for the year		5,676	166,801	170,894	7,944	15,070	366,385
Transfers between funds		84,626	-	(84,900)	(303)	577	-
FUND BALANCES AS AT 31 DECEMBER 2005		707,243	320,805	542,557	79,281	532,887	2,182,773
Realised gains on available-for-sale investments	6	-	(166,804)	-	-	-	(166,804)
Fair value movement in available-for-sale investments	6	-	281,482	-	-	-	281,482
Capital inflows – endowments received		11,368	-	-	-	-	11,368
Total income and expense for the year recognised directly in funds		11,368	114,678	-	-	-	126,046
Net surplus 2006		-	-	250,791	26,298	47,899	324,988
Total income and expense for the year		11,368	114,678	250,791	26,298	47,899	453,034
Transfers between funds		172,022	-	(183,262)	(886)	12,126	-
FUND BALANCES AS AT 31 DECEMBER 2006		890,633	435,483	610,086	104,693	592,912	2,633,807

Specified endowment income

Income from specific endowments, comprising investment income and realised profits arising from the sale of investments, are recognised in the income statement as designated for specific purposes in the period when they accrue.

It is the University's policy to utilise only a portion of this income and to re-invest the un-utilised portion in the underlying endowed funds in order to grow the capital base.

Funds made available to operations, whether Council controlled or designated, which cannot be utilised due to a specific event not having occurred, are also capitalised. The utilisation of these funds for operational purposes, and the capitalisation of all un-utilised funds, is effected by transfer within the Statement of Changes in Fund Balances.

UNIVERSITY OF CAPE TOWN
CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2006

	Note	2006 R'000	2005 R'000
Cash flows from operating activities			
Cash receipts from students, government and private sources		1,565,651	1,507,232
Cash paid to employees and suppliers		(1,510,083)	(1,387,748)
Cash generated from operations		55,548	119,484
Investment income – interest	17	92,928	79,333
Investment income – dividends	17	21,736	21,359
Endowed funds – capital inflows		11,368	5,676
Finance costs	20	(1,587)	(10,799)
Net cash inflows from operating activities		179,993	215,053
Cash flows from investing activities			
Additions to maintain property, plant and equipment	5	(136,660)	(97,573)
Proceeds on disposal of property, plant and equipment		450	3,515
Purchase of available-for-sale investments	6	(267,055)	(172,105)
Proceeds from sale of available-for-sale investments		214,380	119,129
Proceeds from realisation of held-to-maturity investments		4,643	232,231
Net cash (used)/generated in/ from investing activities		(184,243)	85,197
Cash flows from financing activities			
Decrease in long term interest bearing borrowings	12	(8,088)	(243,573)
Net cash used in financing activities		(8,088)	(243,573)
Net (decrease)/increase in cash and cash equivalents		(12,338)	56,677
Cash and cash equivalents at beginning of period		329,466	272,789
Cash and cash equivalents at end of period	11	317,128	329,466

Cash generated from operations

Reconciliation of net surplus to cash generated from operations:

	Note	2006	2005
Net surplus		324,988	193,908
Adjustments for:			
Depreciation	5	29,994	27,599
Increase in employee benefit provisions	13	11,830	22,000
Increase in other provisions	15	-	4,250
Loss/(profit) on sale of property, plant and equipment		325	(2,504)
Investment income – interest	17	(92,928)	(79,333)
Investment income – dividends	17	(21,736)	(21,359)
Finance costs	20	1,587	10,799
Profit on sale of investments		(166,804)	(83,519)
Associate company losses	7	-	1,211
Changes in working capital			
accounts receivable, prepayments and loans	10	(16,331)	28,538
inventories	9	(64)	632
accounts payable, accrued liabilities and deposits	**14**	(15,313)	17,262
Cash generated from operations		55,548	119,484

UNIVERSITY OF CAPE TOWN
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AT 31 DECEMBER 2006

1 University information

The consolidated annual financial statements of the University for the year ended 31 December 2006 were authorised for issue in accordance with a resolution of Council on 6 June 2007.

The principal activities of the University relate to teaching, research and the providing of residential accommodation to students.

2 Basis of preparation

The consolidated annual financial statements have been prepared on an historical cost basis, except where stated otherwise (refer accounting policies). The consolidated annual financial statements are presented in rands and all values are rounded to the nearest thousand (R'000) except where otherwise indicated.

The accounting policies set out below are consistent with those applied in the previous year. These policies have been applied consistently by all the University's consolidated entities and the financial year ends of these entities are coterminous.

The University has adopted the following new and amended IFRS and IFRIC interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the financial statements of the University. They did however give rise to additional disclosures:

- IAS 19 *Amendment - Employee Benefits*
- IAS 21 *Amendment - The Effects of Changes in Foreign Exchange Rates*
- IAS 39 *Amendments - Financial Instruments: Recognition and Measurement*
- IFRIC 4 *Determining whether an Arrangement contains a Lease*

The University has not early adopted the following IFRS and IFRIC interpretations:

- IFRS 7 *Financial Instruments: Disclosures* (effective date - 1 January 2007)
- IFRS 8 *Operating segments* (effective date - 1 January 2009)
- IAS 1 *Amendment - Presentation of Financial Statements* (effective date - 1 January 2007)
- IFRIC 8 *Scope of IFRS 2* (effective date - 1 May 2006)
- IFRIC 9 *Reassessment of embedded derivatives* (effective date - 1 June 2006)
- IFRIC 10 *Interim reporting and impairment* (effective date - 1 November 2006)
- IFRIC 11 *IFRS 2 group and treasury share transactions* (effective date - 1 March 2007)
- IFRIC 12 *Service concession arrangements* (effective date - 1 January 2008)

The impact of applying these standards is expected to have a minimal impact on the reported numbers of the University but will lead to additional disclosure.

Statement of compliance

The consolidated annual financial statements of the University of Cape Town and its subsidiaries have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) and in the manner required by the Minister of Education in terms of S41 of Act 101 1997 (as amended).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the University and its subsidiaries as at 31 December each year.

The financial statements of subsidiaries are consolidated from the date on which the University acquires effective control, up to the date that such effective control ceases. For this purpose, subsidiaries are entities over which the University, directly or indirectly, has the

2 Basis of preparation (continued)

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the University controls another entity.

Acquisitions are included in the consolidated financial statements using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

When there is a disposal or loss of control of a subsidiary, the consolidated financial statements would include the results for the part of the reporting period during which the University had control. Any difference between the net proceeds on disposal and the carrying amount of the subsidiary is recognised in the University's income statement.

All inter-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions that are recognised in assets, are eliminated in full.

The financial statements include the operations of the entities listed below.

Entity	**Nature of ownership**
The University of Cape Town Foundation	A trust of which the University of Cape Town appoints the trustees and is the sole beneficiary
The University of Cape Town Trust	A trust, formed in the United Kingdom, of which the University of Cape Town is the sole beneficiary
The Student Loan Fund Limited	A Section 21 company controlled by the University of Cape Town

Segment information

A segment is a recognised component of the University that is engaged in providing products or services that are subject to risks and returns different from those of other segments. Segmentation provided in the income statement of these financial statements is in terms of the guidelines prescribed by the Department of Education and is specifically not in terms of IAS14. The operating businesses are managed separately but fall under the oversight of the University of Cape Town's executive leadership.

Council controlled

The Council controlled segment predominantly represents the teaching component of the University of Cape Town. Decision making rights relating to income earned in this segment rests with Council.

Specifically funded activities restricted

The specifically funded activities restricted consist mainly of research activity. Here decision making rights over income earned and related expenses rest with researchers. Council retains an oversight role in regard to ensuring that expenditure is in accordance with the mandate received from funders.

Student and staff housing

The Student and Staff housing segment relates to the provision of accommodation to both students and staff. The availability of this accommodation being a strategic initiative aimed at ensuring that students adopt the University of Cape Town as their preferred place of study and that the University is able to attract and retain appropriate staff.

3 Significant accounting judgements and estimates

In the process of applying the University's accounting policies, management has made certain judgements and estimations. The following are those which have had the most significant effect on the amounts recognised in the financial statements.

Judgements

Investments

All investments, with the exception of specific investments which are held-to-maturity, are considered to be available-for-sale investments as the intention is to grow the value of the investment portfolios over a long term horizon.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are set out below.

Depreciation

At the end of each financial year end management reviews the assets within property, plant and equipment to assess whether the useful lives and residual values applied to each asset are appropriate.

Gratuity provision academic staff

The University becomes liable to pay out a gratuity only on retirement, retrenchment or death. In order to estimate the probability of incurring this liability, management make assumptions in respect of the number of staff that will reach retirement at the University. In addition, to fair value the liability the University needs to make assumptions regarding both expected future salary increases and a suitable discount rate. More details on these assumptions are provided in Note 13. The carrying value of the gratuity provision for academic staff at 31 December 2006 was R24.1 million (2005: R21.1 million).

Post retirement medical aid benefits obligation

The University's future obligation in respect of post-retirement medical aid contributions is actuarially valued based on the projected unit credit method. For the purpose of the valuation at 31 December key assumptions were made in respect of the discount rate, expected inflation on medical aid contributions, expected age of retirements and mortality rates. More details on these assumptions are provided in Note 13. The carrying value of the post retirement medical aid obligation at 31 December 2006 was R125.6 million (2005: R117.8 million).

Student fees receivables

At year end management makes an estimate of the amount of total outstanding student fee debt that it expects to hand over to external debt collectors. In addition, management estimates the amounts that it expects to recover from outstanding balances handed over based upon the age profile of debts handed over. A provision for impairment is raised based on these estimates. The carrying value of student fees receivable at 31 December 2006 was R22.6 million (2005: R20.0 million) refer Note 10.

4 Summary of significant accounting policies

4.1 Foreign currency translation

The consolidated financial statements are presented in rands, which is the University's functional and presentation currency.

Transactions in foreign currencies are initially recorded at the exchange currency rate ruling at the date of the transaction.

4.1 Foreign currency translation (continued)

Monetary assets and liabilities denominated in foreign currencies are retranslated at the exchange currency rate ruling at the balance sheet date. All differences are taken to profit or loss in the year in which they arise.

Non monetary items carried at cost are translated using the exchange rate at the date of the transaction, whilst assets carried at fair value are translated at the exchange rate when the fair value was determined. When a gain or loss on a non monetary item is recognised directly in funds, any exchange component of that gain or loss shall be recognised directly in funds. Conversely, when a gain or loss on a non monetary item is recognised directly in profit or loss, any exchange component of that gain or loss shall be recognised directly in profit or loss.

4.2 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the University and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

State appropriations - subsidies and grants

State subsidies and grants for general purposes are recognised as income in the financial year in which they accrue.

Subsidies and grants for specific research purposes are brought into the income statement in the financial period in which it accrues to the University in accordance with the relevant grants and agreements. Such subsidies and grants are presented separately as credits in the income statement. Subsidies and grants relating to specific expenses are not offset against the expense but are included in the disclosure of State appropriations - subsidies and grants.

Designated income from contracts, grants and donations

Revenue received for designated specific purposes arises from contracts, grants and donations. Such revenue is recognised in the income statement in the financial period in which it accrues to the University in accordance with the relevant agreement.

Capital inflows for endowment purposes are added to endowment capital in the Statement of Changes in Funds Balances in the period in which they are received.

Tuition and residence fees

Tuition and residence fees charged are applicable to one academic and financial year and are recognised in that year.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Dividends are recognised when the right to receive payment is established.

Rendering of services

Revenue, involving the rendering of services, is recognised by reference to the stage of completion of the transaction at the balance sheet date. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses incurred that are recoverable.

4.3 Retirement benefits

Defined contribution retirement plan

Employer contributions to the University of Cape Town Retirement Fund are recognised in the

4.3 Retirement benefits (continued)

income statement in the year in which they are incurred.

Medical aid benefits

Employer contributions to a medical aid fund are recognised as an expense in the period during which the employees render services to the University.

Post-retirement medical aid benefits – defined benefit plan

The University of Cape Town has an obligation to provide certain post retirement medical aid benefits to its eligible employees and pensioners. The University is required to provide a defined amount of the medical aid contribution due. The plan is not funded.

The costs incurred in respect of post-retirement medical aid benefits are charged to income as incurred, at current service costs, as the employee renders the service. The present value of the future medical aid subsidies for past service costs is actuarially determined annually in accordance with IAS 19 Employee Benefits. The defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions.

The liability is recognised at the balance sheet date. Any curtailment benefits or settlement amounts are recognised against income as incurred. The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs.

Actuarial gains and losses are recognised as income or expense when the cumulative actuarial gains or losses exceed 10% of the defined benefit obligation. These gains or losses are recognised over a period of five years.

4.4 Borrowing costs

Borrowing costs are recognised as an expense when incurred.

4.5 Research costs

Research costs are expensed as incurred.

4.6 Property, plant and equipment

Property, plant and equipment are initially stated at cost. The cost of an asset comprises the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to operate as intended by management.

Subsequently, property plant and equipment are stated at cost less accumulated depreciation and any provision for impairment. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the group and the cost of the item can be measured reliably. Maintenance and repairs, which do not meet these criteria, are charged against income as incurred.

Library books are written off in the year in which they are acquired. Donated assets are initially recorded at fair value at the date of donation. Land is not depreciated as it is deemed to have an indefinite life.

Property, plant and equipment are depreciated on a straight-line basis estimated to write each asset down to its estimated residual value over the estimated useful lives of the assets which range as follows:

Buildings	50-200 years
Land improvements other than buildings	30 years
Motor vehicles	15 years
Furniture and equipment	5-50 years
Computers and software	5–10 years

4.6 Property, plant and equipment (continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

4.7 Impairment of non-financial assets

The University assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the University makes an estimate of the asset's recoverable amount.

An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at the revalued amount, in which case the reversal is treated as a revaluation increase.

After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

4.8 Financial assets and liabilities

Financial assets and financial liabilities are initially recognised on the balance sheet when the enterprise becomes party to the contractual provisions of the instrument. The trade date method of accounting has been adopted for 'regular way' purchase or sale of financial assets. The trade date is the date that an enterprise commits to purchase or sell an asset. A 'regular way' contract is a contract for the purchase or sale of financial assets that require delivery of the assets within the time frame generally established by regulation or convention in the market place concerned.

Financial assets and liabilities are initially measured at fair value, except for financial assets at fair value through profit and loss where transaction costs are expensed. Subsequent to initial recognition the measurement of financial assets and liabilities depends upon the class of instrument as follows.

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate.

The University determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the University commits to purchase the asset.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. All derivatives are accounted for as held for trading instruments. The University makes limited use of derivative financial instruments

4.8 Financial assets and liabilities (continued)

such as forward currency contracts and futures and option contracts to hedge its risks associated with equity exposures and foreign currency fluctuations.

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into. Subsequent to initial recognition, derivatives are remeasured at fair value. Fair values are obtained from quoted market prices and dealer price quotations in active markets. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Gains and losses on realisation or re-measurement are recognised in the income statement. All derivative instruments of the University are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to- maturity investments when the University has the intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

Held to maturity investments are initially measured at fair value and are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets comprise student fees receivable, accounts receivable in terms of contracts, student loans and loans to employees. These assets are initially measured at fair value and are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Cash and cash equivalents are classified as loans and receivables originated by the enterprise and are initially measured at fair value. They are subsequently measured at amortised cost. Cash and cash equivalents consist of cash on hand and balances at banks, net of outstanding bank overdrafts, and short-term deposits.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. Such assets are comprised of investments in listed equity shares, quoted interest bearing corporate and government bonds, quoted unit trusts and money market deposits. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of funds until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in funds is included in the income statement. The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date.

Financial liabilities

Financial liabilities are comprised of accounts payable and accrued liabilities, deposits and interest bearing loans and borrowings.

Accounts payable and accrued liabilities are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the liabilities are derecognised as well as through the amortisation process.

4.8 Financial assets and liabilities (continued)

Deposits provided by prospective and current students are treated as current liabilities until the amount is billed as due. Deposits are initially measured at fair value. They are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in income when the liabilities are derecognised as well as through the amortisation process.

All interest bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

Subsequent to initial recognition, interest-bearing loans and borrowings are measured at amortised cost using the effective interest method. Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

4.9 Derecognition of financial assets and liabilities

Financial assets

A financial asset or, where applicable, a part of a financial asset or part of a group of similar financial assets, is derecognised where the:

- rights to receive cash flows from the asset have expired;
- University retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- University has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the University has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the University’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the University could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the University’s continuing involvement is the amount of the transferred asset that the University may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the University’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Financial assets and liabilities are offset and the net amount reported on the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention on a net basis to realise the assets and settle the liabilities on a net basis.

4.10 Impairment of financial assets

The University assesses at each balance sheet date whether a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a “loss event’) and that loss event has an impact on the estimated future cash flows of the financial asset and can be reliably estimated.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

The University first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the University will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its acquisition cost and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from funds to the income statement. Reversals in respect of equity instruments classified as available-for-sale are not recognised in profit. Reversals of impairment losses on debt instruments are reversed through the income statement, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognised in the income statement.

4.11 Investment in associates

The University of Cape Town’s investment in its associate companies is accounted for under the equity method of accounting. An associate is an entity over which the University has significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. If the University holds, directly or indirectly, 20% or more of the voting power of the investee, it is assumed that the University has significant influence unless it can be clearly demonstrated that this is not the case.

Under the equity method, the investment in the associate is initially recognised at cost and the carrying amount is increased or decreased to recognise the University’s share of the profit or loss of the associate after the date of acquisition. The University’ share of the profit or loss is recognised in the income statement.

4.11 Investment in associates (continued)

If the University's share of losses of an associate equals or exceeds its interest in the associate, the University discontinues recognising its share of further losses. After the University's interest is reduced to zero, additional losses are provided for, and a liability recognised only to the extent that the University has incurred legal or constructive obligations or made payments on behalf of the associate.

After application of the equity method, including recognising the associate's losses, the University determines whether it is necessary to recognise any additional impairment loss with respect to the University's net investment in the associate.

Where there has been a change recognised directly in the equity of the associate, the University recognises its share of any changes and discloses this, when applicable, in the statement of changes in funds.

The reporting dates of the associates and the University are identical and the associate's accounting policies conform to those used by the University for like transactions and events in similar circumstances.

4.12 Inventories

Inventories are valued at the lower of the weighted average cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

4.13 Provisions

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

Where the University expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

4.14 Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfilment is dependant on a specified asset; or

(d) There is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) and at the date of renewal or extension period for scenario (b).

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005 in accordance with the transitional requirements of IFRIC 4.

4.14 Leases (continued)

University as a lessee

Finance leases, which transfer to the University substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged reflected in the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the University will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term.

University as a lessor

Leases where the University does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

5 Property, Plant and Equipment

Year ended 31 December 2006 (All amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Software	Motor Vehicles	Assets under Construction	Total
Cost						
Cost 1 January 2006	587,940	202,393	64,316	12,913	6,351	873,913
Additions	14,425	44,819	12,626	3,143	61,647	136,660
Transfers	518	-	-	-	(518)	-
Disposals	(541)	(367)	(99)	(848)	-	(1,855)
Cost 31 December 2006	602,342	246,845	76,843	15,208	67,480	1,008,718
Accumulated depreciation						
Balance 1 January 2006	74,864	64,458	26,706	3,295	-	169,323
Disposals	(540)	(209)	(46)	(285)	-	(1,080)
Depreciation charge	6,374	13,080	9,617	923	-	29,994
Balance 31 December 2006	80,698	77,329	36,277	3,933	-	198,237
Book value 31 December 2006	521,644	169,516	40,566	11,275	67,480	810,481

Year ended 31 December 2005 (All amounts in R'000)

	Land, Buildings and Land Improvements	Furniture and Equipment	Computers and Software	Motor Vehicles	Assets under Construction	Total
Cost						
Cost 1 January 2005	485,984	175,685	48,091	11,837	58,873	780,470
Additions	45,900	29,391	16,488	1,450	4,344	97,573
Transfers	56,866	-	-	-	(56,866)	-
Disposals	(810)	(2,683)	(263)	(374)	-	(4,130)
Cost 31 December 2005	587,940	202,393	64,316	12,913	6,351	873,913
Accumulated depreciation						
Balance 1 January 2005	69,418	53,214	19,727	2,484	-	144,843
Disposals	(41)	(2,468)	(237)	(373)	-	(3,119)
Depreciation charge	5,487	13,712	7,216	1,184	-	27,599
Balance 31 December 2005	74,864	64,458	26,706	3,295	-	169,323
Book value 31 December 2005	513,076	137,935	37,610	9,618	6,351	704,590

A register of land and buildings is available for inspection at the business address. The University is not permitted to dispose of, or otherwise alienate, its land and buildings without the approval of the Minister of Education. In addition, there are further restrictions on the alienation of certain properties held by deed of grant under the Rhodes Will Act.

6 Investments

	2006 R'000	2005 R'000
Available-for-sale investments		
Opening balance	1,303,452	1,000,156
Additions	267,055	172,105
Disposals	(47,573)	(35,610)
Realised gains on sale of investments	(166,804)	(83,519)
Fair value movement in investments	281,482	250,320
Closing balance	1,637,612	1,303,452
Held-to-maturity investments		
Sinking fund investments	1,159	5,802
Public Investment Commission	1,159	5,802
Total investments	1,638,771	1,309,254
Current portion of held–to-maturity investments	(1,159)	(4,643)
Total long term investments	1,637,612	1,304,611

Held-to-maturity investments

Public Investment Commission

Various deposits from which the proceeds are to be used to redeem fixed period loans of R1.2 million included under government subsidised loans of R10.0 million (Refer note 12).

Interest accrues at 75% of the rate applicable to the individual fixed period loans, varying between 16.25% and 18.5%. The carrying value approximates the fair value.

	2006 R'000	2005 R'000
The total investments comprise the following categories:		
Local equities	824,336	639,839
International investments	275,151	215,751
Capital market interest-bearing investments	216,185	315,612
Money market deposits	321,940	132,250
Total available-for-sale investments	1,637,612	1,303,452
Held-to-maturity – interest bearing investments	1,159	5,802
Total investments	1,638,771	1,309,254

7 Investments in associates

	2006 R'000	2005 R'000
African Medical Imaging (Pty) Ltd (44%)	1,211	1,211
UCT Medical Centre (Pty) Ltd – trading as UCT Private Academic Hospital (26%)	2,411	2,411
Total investment	3,622	3,622
Less: share of accumulated losses	(3,622)	(3,622)
Carrying value	-	-

Council values the investment in the associates at carrying value.

Share of the associate's balance sheets:

	2006 R'000	2005 R'000
Non-current assets	721	2,096
Current assets	6,220	5,588
Non-current liabilities	(8,189)	(611)
Current liabilities	(8,184)	(15,355)
Net Liabilities	(9,432)	(8,282)

Share of the associate's revenue and profits/(losses):

	2006 R'000	2005 R'000
Revenue	14,754	13,699
Losses	(1,148)	(1,788)

The University does not account for its share of the losses of the associates beyond its initial investment in the associates.

8 Non –current receivables

	2006 R'000	2005 R'000
Student loans	7,546	6,682
Loans to employees	2,000	960
	9,546	7,642

The current receivables relating to employee loans are shown in note 10. Non-current loans to employees are due within 2 years from balance sheet date. Student loans are mostly receivable 5 years after balance sheet date. The carrying value of the non-current receivables is considered to approximate fair value. These amounts are unsecured.

The weighted average interest rates were as follows:

	2006	2005
Student loans	9.62%	9.15%
Loans to employees - car scheme	9.00%	9.00%
Loans to employees - other	13.12%	9.60%

9 Inventories

	2006 R'000	2005 R'000
Consumables	351	287

10 Accounts receivable and prepayments

	2006 R'000	2005 R'000
Accounts receivables and prepayments	97,099	81,608
Loans to employees	3,440	7,046
Student fees receivable	22,553	20,012
	123,092	108,666

Accounts receivables are non interest bearing and are generally on 30 day terms.

Student fees outstanding at 30 June and not paid by 31 July of each year are charged interest at prime. The rate of interest for the six months ranged between 11% and 12.5% with the year end rate being 12.5% (10.5% for the period 1 July to 31 December 2005).

11 Cash at bank and cash equivalents

	2006 R'000	2005 R'000
Cash at bank and in hand	2,969	1,047
Short-term bank deposits - Local	311,707	324,373
- Foreign	2,452	4,046
	317,128	329,466

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are redeemable at 24 hour notice, are drawn down or added to depending on the immediate cash requirements of the University, and earn interest at the respective short-term deposit rates. The fair value of cash and cash equivalents is R 317,128 (2005: R 329,466).

At 31 December 2006, the University had available R 20 million (2005: R 20 million) of undrawn borrowing facilities in respect of which all conditions precedent had been met.

The weighted average effective interest rate on short-term bank deposits was 7.28% for local deposits and 2.8% for foreign (2005: 7.41% for local deposits and 2.5% for foreign).

Cash and cash equivalents for the purpose of the consolidated cash flow statement are as stated above.

12 Interest bearing borrowings

	2006 R'000	2005 R'000
Financial institutions for government-subsidised loans	10,033	18,001
Total interest bearing borrowings	10,033	18,001
Student Loan Fund loans	107	227
Total borrowings	10,140	18,228
Current portion	(3,987)	(7,967)
Total non-current borrowings	6,153	10,261

Financial institutions for government-subsidised loans

Government subsidised loans are subsidised to the extent of 50% or 85% for both interest and capital repayments, and consist of a number of loans with financial institutions at fixed interest rates ranging from 5.5% to 18.5% and varying repayment terms. The weighted average interest rate was 10.96% (2005 13.25%). The loans are unsecured and the carrying values collectively approximate their fair values.

12 Borrowings (continued)

Student Loan Fund loans

Interest on Student Loan Fund loans is borne by the student. The loan is unsecured and the carrying value of this liability approximates its fair value.

	2006 R'000	2005 R'000
Interest rate exposure		
At fixed rates	10,033	18,001
At floating rates	-	-
Total interest bearing borrowings	10,033	18,001
Finance costs		
Standard Bank of SA Limited transitional retirement loan	-	6,117
Financial institutions for government subsidised loans	1,587	4,682

Maturity of interest-bearing non current borrowings

	2006 R'000	2005 R'000
Between 1 and 2 years	3,969	6,474
Between 2 and 5 years	2,161	3,470
Later than 5 years	23	317
Total non current borrowings	6,153	10,261

13 Provisions – employee benefits

	2006 R'000	2005 R'000
Gratuity provision for academic staff	24,100	21,150
Leave provision for administrative and support staff	36,900	35,850
Post-retirement medical aid benefit obligation	125,630	117,800
Total provisions – employee benefits	186,630	174,800
Current portion – gratuity provision academic staff	(1,600)	(1,600)
Current portion – leave provision for administration and support staff	(36,900)	(35,850)
Current portion – post retirement medical aid obligation	(7,100)	(5,600)
Total current provisions – employee benefits	(45,600)	(43,050)
Total non-current provisions – employee benefits	141,030	131,750

Gratuity provision academic staff

This relates to the policy to pay a gratuity on death, retrenchment or retirement where a member of the academic staff has not taken a sabbatical. Sabbaticals may be granted to allow academic staff uninterrupted research work, usually away from Cape Town, and are not leave in the ordinary sense.

13 Provisions – employee benefits (continued)

In order to estimate the probability of incurring this liability management has utilised the following assumptions in calculating the liability:

- Academics 55 and over - Assume all will stay to retirement;
- Academics 45 to 55 - Assume 75% will stay to retirement; and
- Academics younger than 45 - Assume 40% will stay to retirement.

In addition, in order to fair value the liability, management has assumed that future salary increases will be 4.75% per annum (2005: 4.50%) and the discount rate that has been applied is 8.0% (2005: 7.75%).

Leave provision for administrative and support staff

An accrual is made for the estimated liability for annual leave as a result of services rendered by professional, administrative and support staff up to the balance sheet date.

As the University does not have the unconditional right to defer settlement of this liability for at least twelve months after the balance sheet date the liability is classified as being current.

Post-retirement medical aid benefit obligation

The status of the University's obligations towards post-retirement medical aid benefits, determined in terms of International Accounting Standard 19 Employee Benefits, is set out below.

For the purpose of the valuation at 31 December the following key assumptions were made; discount rate 8.0% (2005: 7.75%); expected inflation on medical aid contributions of 6.0% over the long term (2005: 5.75%). Post retirement mortality is based on PA (90) rated down one year (2005: PA (90) rated down two years).

It is assumed, in both the current and prior year, that 2.5% of members present will retire at each age from 55 to 59 and ages 61 and 62; and 15% of members will retire at age 60; and 10% of members at ages 63 and 64 will retire; with all the remaining members retiring at age 65. The expected average remaining working lives of the employees participating in the scheme is 17 years (2005: 16 years).

	2006 R'000	2005 R'000
Funding obligation	119,800	99,500
Unrecognised actuarial gains	5,830	18,300
Amount accrued in respect of funding obligation	125,630	117,800
The net expense recognised in the income statement is as follows:		
	11,830	14,700
- Interest on obligation	7,700	9,000
- Current service cost	5,800	5,700
- Actuarial gains recognised	(1,670)	-
Reconciliation of the change in the present value of the funding obligation:		
Funding obligation at start of year	99,500	102,000
Interest on obligation	7,700	9,000

13 Provisions – employee benefits (continued)

	2006 R'000	2005 R'000
Current service cost	5,800	5,700
Actuarial losses/(gains)	10,800	(13,100)
Contributions paid in respect of funding obligation	(4,000)	(4,100)
Funding obligation at end of year	119,800	99,500

A one percentage point change in the assumed rate of increase in medical aid inflation would have the following effect:

	1% Increase	1% Decrease
2006 effect on the defined benefit obligation	18,500	(15,100)

Amounts for the current and previous four periods are as follows:

	Post-employment medical benefits				
	2006 R'000	2005 R'000	2004 R'000	2003 R'000	2002 R'000
Defined benefit obligation	119,800	99,500	102,000	96,900	91,700
Experience adjustments on plan liabilities – losses/(gains)	10,800	(13,100)	(5,200)	(5,200)	(58,100)

14 Accounts payable and accrued liabilities

	2006 R'000	2005 R'000
Trade payables	11,378	16,883
Accrued expenses	19,002	20,350
VAT	1,513	1,101
Other payables	27,310	21,182
Total	59,203	59,516

Trade and other payables are non-interest bearing and are normally settled on 30 day terms.

15 Provisions – other

	2006 R'000	2005 R'000
Provision for tax liability at start of year	11,250	7,000
Settlement during the year	(11,250)	-
Additional provision raised during the year	-	4,250
Provision for tax liability at end of year	-	11,250

16 State appropriations-subsidies and grants

	2006 R'000	2005 R'000
Subsidy for general purpose	544,776	485,689
State grants and contracts	129,951	132,553
Subsidy on interest and redemption on state guaranteed loans	3,975	5,908
	678,702	624,150

All State appropriations - subsidies and grants received by the University are accounted for as grants related to income (refer accounting policies note 4.2 for more detail). There are no unfulfilled conditions or other contingencies attaching to the subsidies and grants that have been recognised above.

17 Interest and dividends

	2006 R'000	2005 R'000
Bank interest	30,594	31,647
Interest income on accounts and other receivables	16,147	8,000
Income from investments:		
Dividends	24,179	21,359
Interest - available-for-sale	42,951	29,849
- held-to-maturity	793	9,837
Total interest and dividends	114,664	100,692

18 Personnel costs

	Academic Professional	Other	Total	Total
Wages and salaries	353,793	411,529	765,322	716,493
Termination benefits	933	1,268	2,201	634
Pension costs	54,702	51,562	106,264	98,410
Post retirement medical aid benefits	5,469	6,361	11,830	14,700
	414,897	470,720	885,617	830,237
Average number of persons employed during the year			**No.**	**No.**
Full time			3,267	3,293
Part time			1,177	1,330
Total			4,444	4,623

19 Other operating expenses

The following items have been charged in arriving at operating surplus:

	2006 R'000	2005 R'000
Other operating expenses:		
Library acquisitions	10,968	23,623
Repairs and maintenance	63,554	75,995
Software costs	16,406	7,217
General services outsourced	40,682	29,664
Catering services outsourced	37,156	36,250
Auditors' remuneration	2,952	2,280
Current year - Annual Financial Statements	1,777	1,630
- Other audit services	1,175	650
Lease expenses	6,777	5,522

20 Finance costs

	2006 R'000	2005 R'000
Finance costs	1,587	10,799

21 Financial risk management objectives and policies

The University's principal financial instruments, comprise available-for-sale and held-to-maturity investments; accounts receivables, student fees and loans receivable; cash and short-term deposits; interest bearing borrowings and accounts payable and accrued liabilities.

The University manages a substantial portfolio of investments with a long term view to growing the portfolio in order to provide financial stability and support for new initiatives and strategic choices. The main purpose of the interest bearing loans and borrowings is to raise finance for the University's operations. The University has various other financial assets and liabilities such as accounts and student fee receivables and accounts payables, which arise directly from its operations.

The University also enters into certain derivative transactions. The University's portfolio managers make limited use of futures and option contracts for hedging purposes only to manage the equity exposure flexibly and cost effectively. This is done in order to achieve desired equity exposures.

Forward exchange contracts may be entered into to mitigate risks relating to transactional currency exposures.

It is, and has been throughout the year under review, the University's policy that, apart from derivatives, no trading in financial instruments shall be undertaken.

The main risks arising from the University's financial instruments are cash flow interest rate risk, foreign currency risk, commodity price risk, credit risk and liquidity risk.

Council, through its finance and investment committees reviews and agrees policies for managing each of these risks and they are summarised below.

Cash flow interest rate risk

All of the University's interest-bearing borrowings are at fixed rates of interest. The University has a number of receivables (i.e. student fees and loans to employees) where interest rates charged are linked to the prime rate.

21 Financial risk management objectives and policies (continued)

The University holds a substantial amount of interest bearing investments and interest earning bank deposits. Interest risks relating to the University's investments are managed by selected portfolio managers who operate under defined mandates, which are designed to limit the exposures of the University. The investment decisions made and performances of these managers are closely monitored by the Joint Investment Committee. This Committee comprises trustees of the University of Cape Town Foundation, members of the University's Council and external members with specific expertise relating to investments. The risks in these areas are managed through natural hedges, hedge instruments and the restriction of the ability to spend interest income that is subject to the fluctuation of interest rates.

Foreign currency risk

The University is exposed to foreign currency risk through its holdings of foreign denominated investments (refer Note 6) and bank accounts (refer Note 11). All of the above holdings are in major international currencies (e.g. US Dollars/Pound Sterling). Foreign currency risk is managed by the University's portfolio managers whose ability to invest in foreign funds is limited by their mandates.

The University is also exposed to foreign exchange risk to the extent that it does not take forward cover for foreign currency transactions in the course of operations. The University does not have a policy that requires such cover to be taken. This exposure is reduced by the use of both a GBP Sterling and US Dollar bank account through which such foreign obligations are settled.

Commodity price risk

The University is exposed to price risk in respect of its investment portfolio. The University manages this risk through the use of a number of portfolio managers who operate under defined mandates and long term investment policies.

Credit risk

The University trades only with recognised, credit worthy third parties. It is the University's policy that all customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the University's exposure to bad debts is not significant, and there is no significant concentration of credit risk at year end.

With respect to student fee receivables the University has stringent policies with respect to not allowing students with outstanding balances to either graduate or to register for the new financial year. The outstanding fees balance at year end is widely spread amongst numerous students indicating no particular concentration of credit risk. With respect to credit risk arising from the other financial assets of the University, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the University's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The University places cash and cash deposits only with major financial institutions with good credit ratings.

Liquidity risk

The timing and nature of the University's cash inflows and outflows are such that liquidity problems are unlikely to arise. Furthermore, the University has access to funds through either its holding of short-term bank deposits or the un-endowed investments portfolio in the event that any unforeseen events occur.

21 Financial risk management objectives and policies (continued)

Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the University's financial instruments.

	Carrying amount		Fair value	
	2006 R'000	2005 R'000	2006 R'000	2005 R'000
Financial assets				
Cash	317,128	329,466	317,128	329,466
Available-for-sale investments	1,637,612	1,303,452	1,637,612	1,303,452
Held to maturity investments	1,159	5,802	1,159	5,802
Account receivables and prepayments	97,099	81,608	97,099	81,608
Loans to employees	5,440	8,006	5,440	8,006
Student fees receivable	22,553	20,012	22,553	20,012
Student loans	7,546	6,682	7,546	6,682
Financial liabilities				
Interest bearing loans and borrowings:				
- Fixed rate borrowings	10,033	18,001	10,033	18,001
Accounts payable and accrued liabilities	59,203	59,516	59,203	59,516
Student deposits	9,589	13,338	9,589	13,338

Market values have been used to determine the fair value of listed available-for-sale financial assets.

The fair value of derivatives and borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

The fair value of loans and other financial assets has been calculated using the market interest rates.

Interest rate risk

The following table sets out the carrying amount, by maturity, of the University's financial instruments that are exposed to interest rate risk:

Year ended 31 December 2006

Fixed rate

	Within 1 year	1 -2 years	2 – 5 years	Later than 5 years	Total
Interest-bearing loans and borrowings	3,967	3,919	2,124	23	10,033

Floating rate

	Within 1 year	1 -2 years	2 – 5 years	Later than 5 years	Total
Cash Assets	317,128	-	-	-	317,128
Interest bearing investments - available-for-sale	538,125	-	-	-	538,125
- held-to-maturity	1,159	-	-	-	1,159
Loans to employees	3,440	2,000	-	-	5,440
Student fees receivable	22,553	-	-	-	22,553
Student loans	-	706	1,079	5,761	7,546

21 Financial risk management objectives and policies (continued)

Year ended 31 December 2005

Fixed rate

	Within 1 year	1 -2 years	2 – 5 years	Later than 5 years	Total
Interest-bearing loans and borrowings	7,967	6,247	3,470	317	18,001

Floating rate

	Within 1 year	1 -2 years	2 – 5 years	Later than 5 years	Total
Cash Assets	329,466	-	-	-	329,466
Interest bearing investments - available-for-sale	447,862	-	-	-	447,862
- held to maturity	4,643	1,159	-	-	5,802
Loans to employees	7,046	960	-	-	8,006
Student fees receivable	20,012	-	-	-	20,012
Student loans	-	625	950	5,107	6,682

Interest on financial instruments classified as floating rate is re-priced at intervals of less than one year.

Interest on financial instruments classified as fixed rate is fixed until the maturity of the instrument.

The other financial instruments of the University that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

Hedging activities

At the end of December 2006, the University held 23 futures contracts in the FNDIH7 Index, maturing on 15 March 2007, with an effective maximum exposure of R4.3 million. In addition, the University held over the counter call options in respect of a listed stock that expires on 2 April 2007, with an effective maximum exposure of R2.5 million. There are no open forward foreign exchange contracts at year end.

At the year ended 31 December 2005 no foreign forward contracts or derivatives existed.

22 Contingent liabilities

The University does not have any contingent liabilities that warrant disclosure in terms of IAS 37.

23 Commitments

Capital commitments

Capital commitments at the balance sheet date but not recognised in the financial statements are as follows:

	2006 R'000	2005 R'000
Approved but not contracted for	30,869	128,568
Contracted	35,536	2,950
	66,405	131,518

It is intended that these commitments will be funded from current resources, with the balance of the required funding being met from contributions from both the public and private sectors.

23 Commitments (continued)

Operating lease commitments – University as lessor

The University has entered into non cancellable commercial property leases. These non cancellable leases have remaining terms of between 1 and 7 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions

Year ended 2006	**Within 1 year**	**2 to 5 years**	**Later than 5 years**	**Total**
Rental of premises	2,436	3,106	96	5,638

Year ended 2005	**Within 1 year**	**2 to 5 years**	**Later than 5 years**	**Total**
Rental of premises	1,625	2,213	67	3,905

Operating lease commitments – University as lessee

The total of future minimum lease payments under non-cancellable operating leases are as follows:

Year ended 2006	**Within 1 year**	**2 to 5 years**	**Later than 5 years**	**Total**
Jammie Shuttle	5,664	11,498	-	17,162
Photo copying machines	1,641	1,677	-	3,318
	7,305	13,175	-	20,480

Year ended 2005	**Within 1 year**	**2 to 5 years**	**Later than 5 years**	**Total**
Jammie Shuttle	5,240	15,720	-	20,960
Photo copying machines	1,692	7,698	-	9,390
	6,932	23,418	-	30,350

24 Remuneration of key management

The following disclosure, as required by the Minister of Education, relates to compensation paid to members of the University's executive management team. Remuneration is based on cost of employment to the University and comprises a flexible remuneration package. Compensation paid for other services performed within the University is reflected separately.

24 Remuneration of key management (continued)

		Gross Remuneration R'000	
Name	**Job Title**	**For Primary employment**	**For other services**
Prof N S Ndebele	Vice-Chancellor	1,470	
Prof T Nhlapo	Deputy Vice-Chancellor	990	
Prof C M de la Rey	Deputy Vice-Chancellor	1,024	
Prof M J Hall	Deputy Vice-Chancellor	1,012	
Prof M E West	Deputy Vice-Chancellor	1,150	
Mr H T Amoore	Registrar	834	
Prof M D Ayogu	Dean: Commerce (Appointed 1 November 2006)	780*	
Prof F Horwitz	Director: Graduate School of Business	780	1
Prof C T O'Connor	Dean: Engineering and the Built Environment	848	300
Prof M Jacobs	Dean: Health Sciences (Appointed 1 February 2006)	841*	
Prof P Ensor	Dean: Humanities	830	
Prof H Corder	Dean: Law	781	5
Prof K Driver	Dean: Science (Appointed 1 January 2006)	753	42
Associate Prof N Yeld	Dean Centre for Higher Education Department	730	
Mr J Critien	Executive Director Properties and Services	791	
Ms M B M Khan	Executive Director: Student Affairs	784	
Ms G Kruger	Executive Director Communication and Development	781	
Dr J MacNamara	Executive Director: Development & Alumni Affairs (Appointed 1 April 2006)	770*	
Mr P N Naicker	Executive Director Information and Communication Technology	790	
Ms J Rapp	Executive Director University Libraries	812	
Prof E O Uliana	Executive Director Finance and Prof. of Accounting	1,025	24
Mr D Van Eeden	Executive Director Human Resources	962	42

* Annualised

Disclosure is made of the following lump sum payments in excess of R249,999, as also required by the Minister:

Purpose/reason for payment	Name	Position held	Amount R'000
Termination benefits	D C Pitt	Dean: Commerce	933
Termination benefits	Dr A D Heher	UCT Innovation	555

No remuneration is paid to members of Council for services as Council members, membership or attendance at meetings, nor is it the policy of the University to pay those whom it appoints as board members, trustees or directors of related or affiliated entities.

Reimbursements for travel to meetings of Council amounting to R25,243 (2005: R16,170) were paid on behalf of a member of Council.

24 Remuneration of key management (continued)

The following table represents the disclosure required in terms of IAS 24 in respect of key management:

Compensation of key management

	2006	**2005**
	R'000	**R'000**
Short-term employee benefits	15,999	12,473
Post-employment pension and medical benefits	3,760	2,973
Termination benefits	933	545
Total compensation paid to key management personnel	20,692	15,991

The post employment pension and medical benefits reflected above for key management represents payments made to the University's retirement fund.

The University has been unable to accurately estimate the portion of the current year's movement of the post retirement medical benefit provision attributable to this group of employees.

The 2006 figures include remuneration in respect of the new post of Executive Director: Development and Alumni Affairs for which there is no prior year comparative.

25 Retirement benefits

University of Cape Town Retirement Fund

The University of Cape Town Retirement Fund is a defined contribution fund, of which the majority of permanent and long-term contract employees are members. The current year's contribution to the Fund for the benefit of employees was R106.3 million (2005: R98.4 million).

The Fund was formed on 1 January 1996, after the majority of employees had elected to transfer from the Associated Institutions Pension Fund, a defined benefit plan underwritten by the State.

26 Lessee improvements

Groote Schuur Hospital

The Groote Schuur Hospital, located in the Cape Town suburb of Mowbray, has been built on land owned by the University of Cape Town. The initial 99 year lease has 18 years to run with an option to renew of a further 99 years. Lease income on this property is nominal. The original cost of the land is included under property, plant and equipment. In terms of the lease, ownership of the buildings will revert to the University of Cape Town at the end of the lease.

Given the absence of any usufructory rights for 117 years, the University of Cape Town has not accounted for value relating to the improvements made on this land.

Pinewood Village

In a similar manner, the Pinewood Village retirement complex, built in the Cape Town suburb of Pinelands, has been erected on ground owned by the University of Cape Town.

The initial lease of 99 years still has 84 years to run with a renewal option of a further 99 years. Lease income on this property is nominal. The original cost of the land is included under property,

26 Lessee improvements (continued)

plant and equipment. In terms of the lease, ownership of the buildings will revert to the University of Cape Town at the end of the lease.

Management consider that the value of improvements made to this land and future income receivable discounted over 183 years would at this point in time be immaterial.

27 Related party disclosures

The related party relationships of the University of Cape Town in terms of IAS24 are as follows:

- Subsidiary entities (refer Note 2 – Basis of consolidation);
- Associate companies (refer Note 7);
- Key management personnel, which comprises members of both Council and the University executive management team (refer Note 24); and
- National Government (refer Note 16).

Transactions between related parties have been conducted at arms length.

Due to the nature of the University's operations and the composition of its council, the Council takes particular care to avoid conflicts of interest, and has an explicit policy requiring disclosure and reporting. Any transaction with third parties in which any council member has a direct or fiduciary interest are subject to this policy, at arms length, and in accordance with approved procurement policy.

The register of direct and fiduciary interests is updated at least annually. The register has been reviewed and no transactions have been identified with a third party controlled by one or more members of the Council.

Mr T D Petersen is the Deputy Chair of Council, Chair of the University Finance Committee and is a member of the Remuneration Committee. Mr Petersen is the managing partner of PricewaterhouseCoopers in the Western Cape. The firm provided tax services to the University amounting to R0.6 million (2005: R1.3 million).

28 Post balance sheet event

With effect from 1 January 2007 the business of the UCT Lung Institute (an association incorporated under section 21 of the Companies Act) was transferred to a newly formed company, the UCT Lung Institute (Pty) Limited, which is 100% owned by the University. The net assets of the company at this date were R 20.8 million and the turnover for the year ended 31 December 2006 was R 15.2 million.

The UCT Lung Institute (Pty) limited will be consolidated in the 2007 annual report.