

Financial Statements

2006 - 2007

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Research that Changes the World

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University of
Leicester

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Treasurer's Report for the Year Ended 31 July 2007

Format of the Accounts

The accounts include the University and its subsidiary Leicester Academic Library Services Ltd. The University's interests in spin-out companies are listed, but none are material for accounts purposes.

Income and Expenditure Account

Income rose by 6.7% to £185.5 million, while expenditure rose by 4.6% to £184.7 million. This yielded an operating surplus before profits on disposal of assets of £0.8 million, compared with a deficit of £2.7 million in the previous year. The overall surplus including profits on disposal of assets was £7.1 million, compared with a deficit of £2.0 million in 2005/06. This was a good result, with the operating surplus coming in £3.5 million ahead of the original budget of a deficit of £2.7 million.

The year 2006/07 got off to a difficult start, with student numbers below target in some categories: this had a knock-on effect on vacancies in student residences, undermining those budgets. In addition, in common with some other universities, a challenge was made by HM Revenue and Customs to the new library company's VAT arrangements, threatening major extra costs. It is therefore very pleasing that the final result was to substantially beat the budget.

Several items contributed to the turnaround during the year. The first was control of pay costs where the procedures in place through the Budgets and Resources Committee and elsewhere achieved the intended vacancy savings, and more, by £1.6 million. Another influence on pay costs was the successful completion of the Framework Agreement negotiations with manual and ancillary staff, resulting in lower transitional costs than originally forecast. A second factor was an encouraging result in research grants and contracts, where income rose to £37.6 million, some £1.5 million ahead of budget, and contribution rose to £7.3 million, some £1.1 million ahead of budget. This was partly due to a very good performance by University of Leicester Archaeological Services. A third factor was Departmental Development Funds, which after a slow start picked up strongly later in the year, turning in a net contribution of £1.5 million, nearly £1 million up on budget. Other contributory factors were interest receivable, up £790,000 on budget from higher interest rates and crystallization of some gains on disposals, and early retirement costs down by £517,000 on budget. Residences, catering and conferences recovered very well from their tricky start, and turned in a contribution £280,000 ahead of budget, due in part to a successful conference business year.

The FRS 17 pensions impact on the surplus this year was positive by £0.6 million.

Following the challenge to the library company's arrangements, the company ceased trading, and all the transactions between the University and the company were unwound. This resulted in a one-off benefit of £78,000, in 2006/07. The capital consequences are described later.

Balance Sheet

The main features this year were the substantial increase in tangible assets of £18.6 million to £145.3 million, reflecting capital expenditure of £25.6 million including equipment. Capital grants of £12.7 million were received for these purposes in the year. The main building projects during the year were the Library extension and refurbishment (£15.5 million spent in the year and due for completion in 2007/08), the Coppice refurbishment (£2.0 million), and John Foster Hall (£1.1 million). The new library project, which incorporates teaching space, some offices, IT study spaces, bookshop and café saw costs increased by some £3.5 million as a result of the University unwinding its library company arrangements.

Cash and investments totalled £23.3 million at the year end. This reflects the full drawdown of the £33.0 million loan facility to meet the capital costs for the John Foster Hall student residences and the library project – resulting in the increase in long-term creditors to £36.3 million.

Net current assets at the year end amounted to £4.1 million, a welcome change to the position at the previous year end when, pending resolution of the situation in connection with the banking covenants, some long term debt was included as a current liability.

Cash Flow

There was a net cash inflow from operating activities of £276,000 in the year. The other key feature of the cash flow was a net inflow of £10.7 million from loans in the year.

Pension Schemes

The Balance Sheet incorporates an FRS 17 deficit on the University's defined benefit pension scheme, the Pension and Assurance Scheme, of £28.4 million down from £30.8 million the previous year. This change resulted from an actuarial gain of £1.8 million in the year. The

Treasurer's Report for the Year Ended 31 July 2007 (continued)

University continued to contribute 28.7% of payroll to that scheme during the year as the employer's contribution. An actuarial valuation as at 1 August 2007 is now in progress.

USS announced some changes to their scheme, including universities being required to fund fully the actuarial costs of early retirement for staff aged under 60. Other consultations on the longer term structure and funding are starting through a Universities UK study.

Prospects

The year 2006/07 ended financially much better than seemed likely at the start. That reflects a substantial amount of work in the University during the year, including close control of costs, and monthly financial monitoring by the senior management team and Finance and General Purposes Committee.

There was some other good news in the year and early in 2007/08, including the University doing well in the major league tables, the award of a record £54.0 million of new research grants and contracts, and very strong student intakes in most categories in October 2007. These bode well for the future.

However, the University is not yet back on a satisfactory financial footing. It remains determined to achieve sustainable operating surpluses of at least 2% of income, after providing more new money than it has done

recently for investment in developments and maintenance. Continued vigilance and value for money questioning of costs will continue, and the very welcome increases in fee and research income need to be sustained. The trends are encouraging, and the University is committed to building on them as it must do.

Conclusion

The University continues to work to its comprehensive long-term development plan encompassing every aspect of its activities with imaginative proposals for improvement of the student experience and the opportunities and well-being of all its staff. The unpredictability of future income streams, whether it be student numbers, research income or Government funding, will always present significant challenges in planning for the future. This has been vividly illustrated this year by the collapse of the NHS Trust's PFI Pathway Project for the major reorganisation and improvements of the main Leicester Hospitals, which has implications for research and teaching facilities in the University.

Despite such setbacks there is a determination by all at the University, both staff and students alike, to ensure that the University maintains and indeed enhances its reputation for excellence. This year's results demonstrate this unequivocally and all are to be congratulated.

Dr M A Chamberlain
Treasurer

27 November 2007

Corporate Governance

The following statement is given to assist readers of the financial statements to obtain an understanding of the governance procedures of the University. The University endeavours to conduct its business in accordance with the seven Principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The University has applied the principles set out in Section 1 of the revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003, incorporating internal control guidance as amended by the British Universities Finance Directors Group.

Summary of the University's Structure of Corporate Governance

The University's Council, the governing body of the University, comprises a number of ex officio, appointed and elected lay and academic persons, the majority of whom are non-executive. The role of the Chairman of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The powers of the Council are set out in the statutes of the University, by its Statement of Primary Responsibilities and under the Financial Memorandum with the Higher Education Funding Council for England. The Council holds to itself, inter alia, responsibility for the ongoing strategic direction of the University, approval of major developments and the receipt of regular minutes from its Committees on the day to day operations of its business and of its subsidiary companies. The Council meets five times a year and has several Committees, including the Policy and Strategy Committee, the Finance and General Purposes Committee, the Staffing Committee, three Remuneration Committees and an Audit Committee. All of these Committees are formally constituted with terms of reference and include members drawn from the lay membership of Council.

The Policy and Strategy Committee inter alia recommends to Council the University's annual financial statements and annual budgets. The Budgets and Resources Committee is responsible to the Policy and Strategy Committee for managing the resources allocated to the academic and academic-services areas. The Finance and General Purposes Committee is responsible to the Policy and Strategy Committee for the overall monitoring of the University's financial health and advising on the overall University financial strategy. The Finance and General Purposes Committee monitors the financial resources that it allocates to the administrative and other support service areas.

The three Remuneration Committees determine the

remuneration of professorial and senior administrative staff, including the Vice-Chancellor.

The Audit Committee is responsible for meeting with the external auditors to discuss audit findings, and with the internal auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. The work of internal audit is guided by an assessment of the key areas of risk in the University's activities. In addition, as part of statutory audit, the external auditors review and test the system of internal control to the extent that they consider necessary to support their audit opinion. The Audit Committee also receives reports on value for money, considers items from the Higher Education Funding Council for England as they affect the University's business, and monitors adherence to the regulatory requirements. The Committee reviews the audit of the University's annual financial statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, which is made up of lay members of Council or other external members with specific expertise. The Committee meets privately with the internal and external auditors for independent discussions as necessary.

Risk Management

The University's Governing Body, the Council, is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Council has approved a comprehensive risk management policy for the University.

The senior management team receives termly reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness briefings. The senior management team and the Audit Committee also receive regular reports from the internal auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. Council receives regular reports on Risk Management and Internal Control from the Vice-Chancellor and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not

Corporate Governance (continued)

merely reporting by exception. During the year Council approved amendments to the Register of Key Risks to reflect changes in the level of exposure to recognised risks, and the emergence of new risks, as indicated by the Internal Control Reports submitted to Council.

At its meeting in July 2007 Council received a report from the Audit Committee advising that it was able to issue a statement of full internal control. Audit Committee came to this conclusion on the basis of a report from the internal auditors and reports it had

received from senior management throughout the year. Council therefore recognises that the University has effective systems of identifying, evaluating and managing the University's significant risks for the year ended 31 July 2007 and up to the date of approval of the annual report and financial statements.

During the last year there have been no major events causing the risk control and reporting procedures to have to be reviewed.

Responsibilities of the Council of the University of Leicester

In accordance with the University's charter, the Council of the University of Leicester is responsible for the administration and management of the affairs of the University, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

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

In causing the financial statements to be prepared the University Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council has reviewed the University's Financial Forecasts for the period to the 31st July 2011, prepared under the direction of the Funding Council and on the basis of assumptions made as to the continuance of government grants to be given by the Funding Council. On that basis, Council has a reasonable expectation that the University has adequate resources to continue operations for its foreseeable future. For this reason, the financial statements continue to be prepared on the going concern basis.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum of the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that funds relating to the contracts with the National Health Service have been properly expended on the purposes for which they have been provided;
- ensure that the University has a sound system of internal financial management and control and takes into account any relevant guidance on accountability or propriety issued from time to time by the Funding Council, the National Audit Office or the Public Accounts Committee;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure; and
- plan and conduct its financial and academic affairs to ensure that the University remains solvent.

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

- definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of financial results involving variance reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to appraisal and review according to approved levels set by the University Council;

Responsibilities of the Council of the University of Leicester (continued)

- comprehensive Financial Regulations, detailing financial controls and procedures, approved by Finance and General Purposes Committee; and
- a professional internal audit team whose annual programme is approved by the Audit Committee and is endorsed by the University Council. The internal audit manager provides the University Council with an annual report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

Signed on behalf of the Council
R. H. Bettles, Chairman of Council
27 November 2007

Members of Council

The Members of Council as at 31 July 2007 were as follows:

Sir Peter Williams
Mr R. H. Bettles
Professor W. J. Brammar
His Hon. Judge D. Brunning
Professor R. G. Burgess
Dr M. A. Chamberlain
Mr P. J. Cottingham
Mr M. Cullen
Mr J. C. Foster
Professor J. C. Fothergill
Ms F. Hussain
Professor P. M. Jackson
Mr D. M. James
Professor I. Lauder
Ms A. Linsell
Sir Tom McKillop
Mr A. M. Mamujee
Professor I. Postlethwaite
Professor M. P. Thompson
Dr B. E. Towle
Mr A. R. Weston
Mr D. J. Woodhead

Independent Auditors' Report to the Council of the University of Leicester

We have audited the Group and University financial statements (the "financial statements") of the University of Leicester for the year ended 31 July 2007 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Council and Auditors

The University Council's responsibilities for preparing the Treasurer's Report and the group financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 7.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and the Training and Development Agency for Schools. We also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements, if the University has not kept proper

accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the Group as at 31 July 2007 and of the University's and Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher

Independent Auditors' Report to the Council of the University of Leicester (continued)

Education Funding Council for England, and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2007 have been applied for the purposes for which they were received; and

- in all material respects, income during the year ended 31 July 2007 has been applied in accordance with the University's statutes and, where appropriate, with the Financial

Memorandum with the Higher Education Funding Council for England, and the funding agreement with the Training and Development Agency for Schools.

KPMG LLP
27 November 2007
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

Statement of Principal Accounting Policies

1. Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and applicable Accounting Standards.

The following accounting policies have been applied consistently in dealing with items which are considered to be material in relation to the company's financial statements.

2. Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and all subsidiary and associated undertakings with material financial transactions for the financial year to 31 July 2007. The consolidated financial statements do not include those of the University of Leicester Students' Union as it is a separate organisation in which the University has no significant influence over policy decisions.

3. Recognition of Income

Income from Specific Endowments and Donations, Research Grants, Contracts and Other Services Rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from other sources is credited to the Income and Expenditure Account on a receivable basis.

Revenue expenditure in relation to research contracts is written off to the Income and Expenditure Account in the year incurred.

4. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Leicester Pension and Assurance Scheme (PAS). The schemes are defined benefit schemes which are externally invested and contracted out of the State Earnings-Related Pension Scheme. The Funds are valued every three years by actuaries using the projected unit method for USS, and the defined accrued benefit method for PAS, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Pension costs are assessed on the latest actuarial

valuations of the Schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of Members of the Schemes after making allowances for future withdrawals. A small number of staff remain in other pension schemes.

5. Foreign Currencies

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

6. Leases

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

7. Land and Buildings

Land and Buildings are stated at cost. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of 50 years. Previously refurbishment costs were not capitalised due to the level of refurbishments being undertaken not having a material impact on the accounts and the previous useful life for buildings of 50 years being inappropriate for the capitalisation of refurbishment costs. From 1 August 2005 refurbishment costs that meet the requirements of FRS 15 are being capitalised and depreciated over the period of 15 years on a straight line basis. Leasehold buildings are depreciated over 50 years, or if shorter, the period of the lease, on a straight line basis.

Where the University has earmarked assets for sale within one year of the balance sheet date, these are transferred to current assets as held for sale.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

Statement of Principal Accounting Policies (continued)

Assets in the course of construction are accounted for but not depreciated.

8. Equipment

Equipment costing less than £25,000 per individual item is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life on a straight line basis, as follows:

- General equipment including vehicles and computer hardware – 3 years
- Equipment acquired for specific research projects – 3 years or the normal project life if less than 3 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

All software costs, including licence fees, are written off to the Income and Expenditure Account as incurred.

9. Investments

Endowment Asset Investments are included in the Balance Sheet at market value. All other Investments are included at the lower of cost and net realisable value.

10. Restructuring Costs

The University continues to operate a voluntary severance and early retirement scheme. Costs are provided for in full from the date applications to the scheme are agreed by the Early Retirement Committee.

11. Stocks

Stocks comprise Departmental Bulk Stores, Heating Oil, Sundry Stores and stocks held at Bookshops, Halls of Residence and Catering and are stated at the lower of cost or net realisable value.

12. Maintenance of Premises

The cost of routine corrective and planned maintenance is charged to the Income and Expenditure Account in the year it is incurred.

13. Provisions

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

14. Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax. For this reason the University is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures. The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

15. Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No other investments are included in cash. Liquid resources comprise Current Asset Investments which are readily disposable. They include term deposits arising from the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

Consolidated Income and Expenditure Account

		2006/07	2005/06
Income	Note	£000	£000
Funding Council Grants	1	62,227	57,432
Academic Fees and Support Grants	2	44,823	40,451
Research Grants and Contracts	3	37,626	35,856
Other Operating Income	4	39,107	38,809
Endowment Income and Interest Receivable	5	1,712	1,328
		<hr/>	<hr/>
Total Income		185,495	173,876
		<hr/> <hr/>	<hr/> <hr/>
Expenditure			
Staff Costs	6	110,690	106,116
Other Operating Expenses	7	64,640	63,949
Depreciation	11	6,667	4,891
Interest Payable	8	2,660	1,631
		<hr/>	<hr/>
Total Expenditure	10	184,657	176,587
		<hr/> <hr/>	<hr/> <hr/>
Surplus / (Deficit) on Continuing Operations After Depreciation of Fixed Assets at Cost and Before Tax		838	(2,711)
Profit on Disposal of Assets		6,307	779
		<hr/>	<hr/>
Surplus / (Deficit) on Continuing Operations After Depreciation of Fixed Assets at Cost and Disposal of Assets but Before Tax		7,145	(1,932)
Taxation		-	-
		<hr/>	<hr/>
Surplus / (Deficit) on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax		7,145	(1,932)
Transfer to Specific Endowments		(94)	(48)
		<hr/>	<hr/>
Surplus / (Deficit) for the year retained within General Reserves	9	7,051	(1,980)
		<hr/> <hr/>	<hr/> <hr/>

- There is no difference between the retained surplus shown above and its historical cost equivalent.
- The Income and Expenditure Account relates wholly to continuing operations.

Statement of Consolidated Total Recognised Gains and Losses

	Note	2006/07 £000	2005/06 £000
Surplus / (Deficit) on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax	9	7,051	(1,980)
Appreciation of Endowment Asset Investments	20	324	709
Endowment Income Retained in the Year	20	94	48
New Endowments	20	84	1
Actuarial Gain / (Loss) in respect of Pension Scheme	30	1,782	(4,130)
Total Recognised Gains / (Losses) Relating to the Year		9,335	(5,352)
Reconciliation			
		2006/07 £000	2005/06 £000
Opening Reserves and Endowments		2,456	7,808
Total Recognised Gains / (Losses) for the Year		9,335	(5,352)
Closing Reserves and Endowments		11,791	2,456

Balance Sheets

	Note	Consolidated		University	
		2007 £000	2006 £000	2007 £000	2006 £000
Fixed Assets					
Tangible Assets	11	145,323	126,734	145,323	116,594
Investments	12	13	–	13	–
		<u>145,336</u>	<u>126,734</u>	<u>145,336</u>	<u>116,594</u>
Endowment Asset Investments	13	<u>6,218</u>	<u>5,716</u>	<u>6,218</u>	<u>5,716</u>
Current Assets					
Stocks		993	1,099	993	1,099
Debtors	14	20,757	20,099	20,736	31,322
Investments	15	20,915	18,772	20,915	18,772
Cash at Bank and in Hand	29	2,341	1,957	2,093	1,551
		<u>45,006</u>	<u>41,927</u>	<u>44,737</u>	<u>52,744</u>
Creditors: Amounts Falling Due Within One Year	16	<u>(40,924)</u>	<u>(65,624)</u>	<u>(40,853)</u>	<u>(71,883)</u>
Net Current Assets / (Liabilities)		<u>4,082</u>	<u>(23,697)</u>	<u>3,884</u>	<u>(19,139)</u>
Total Assets Less Current Assets / Liabilities		<u>155,636</u>	<u>108,753</u>	<u>155,438</u>	<u>103,171</u>
Creditors: Amounts Falling Due After More Than One Year	17	<u>(36,323)</u>	<u>(4,474)</u>	<u>(36,323)</u>	<u>(4,474)</u>
Provisions for Liabilities and Charges	18	<u>(479)</u>	<u>(375)</u>	<u>(479)</u>	<u>(375)</u>
Net Assets Excluding Pension Liability		<u>118,834</u>	<u>103,904</u>	<u>118,636</u>	<u>98,322</u>
Pension Liability	30	<u>(28,434)</u>	<u>(30,820)</u>	<u>(28,434)</u>	<u>(30,820)</u>
Net Assets Including Pension Liability		<u>90,400</u>	<u>73,084</u>	<u>90,202</u>	<u>67,502</u>
Deferred Capital Grants	19	<u>78,609</u>	<u>70,628</u>	<u>78,609</u>	<u>63,247</u>
Endowments					
Specific	20	5,033	4,602	5,033	4,602
General	20	1,185	1,114	1,185	1,114
		<u>6,218</u>	<u>5,716</u>	<u>6,218</u>	<u>5,716</u>
Reserves					
General Reserve Excluding Pension Liability		34,007	27,560	33,809	29,359
Pension Reserve	30	<u>(28,434)</u>	<u>(30,820)</u>	<u>(28,434)</u>	<u>(30,820)</u>
General Reserve Including Pension Liability	21	<u>5,573</u>	<u>(3,260)</u>	<u>5,375</u>	<u>(1,461)</u>
Total		<u>90,400</u>	<u>73,084</u>	<u>90,202</u>	<u>67,502</u>

Professor R.G. Burgess, Vice-Chancellor
R.H. Bettles, Chairman of the Council
Dr M.A. Chamberlain, Treasurer
27 November 2007

Consolidated Cash Flow Statement

	Note	2006/07 £000	2005/06 £000
Net Cash Inflow From Operating Activities	25	276	4,509
Returns on Investments and Servicing of Finance	26	(168)	294
Taxation		–	–
Capital Expenditure	27	(8,054)	(15,212)
Cash Outflow Before Use of Liquid Resources and Financing		(7,946)	(10,409)
Management of Liquid Resources	29	(2,143)	(7,524)
Financing	28	10,473	18,660
Increase in Cash	29	384	727

Reconciliation of Net Cash Flow to Movement in Net (Debt)

	Note	2006/07 £000	2005/06 £000
Increase in Cash in the Year	29	384	727
Increase in Short Term Deposits	29	2,143	7,524
Repayment of Debt	28	191	3,676
New Loan Capital Drawdown	28	(10,664)	(22,336)
Change in Net (Debt) Resulting from Cash Flows		(7,946)	(10,409)
Net (Debt) / Funds at 1 August	29	(6,272)	4,137
Net (Debt) at 31 July	29	(14,218)	(6,272)

Notes to the Financial Statements

Note 1 Funding Council Grants

	2006/07	2005/06
	£000	£000
HEFCE:		
Recurrent Grant:		
Basic Grant	52,246	48,332
Special Initiatives	4,925	4,857
Buildings: Deferred Capital Grants (<i>note 19</i>)	1,173	1,140
Equipment: Deferred Capital Grants (<i>note 19</i>)	2,098	1,312
	<u>60,442</u>	<u>55,641</u>
Training and Development Agency for Schools:		
Recurrent	1,692	1,683
Other	93	108
	<u>62,227</u>	<u>57,432</u>

Note 2 Academic Fees and Support Grants

	2006/07	2005/06
	£000	£000
Full-Time Course Fees:		
From Home and European Union Students	15,348	11,446
From Students Outside the European Union	14,708	14,712
Part-Time Course Fees:		
From Home and European Union Students	7,122	7,868
From Students Outside the European Union	6,651	5,471
Research Training Support Grants	994	954
	<u>44,823</u>	<u>40,451</u>

Note 3 Research Grants and Contracts

	2006/07	2005/06
	£000	£000
Research Councils	15,076	14,784
UK Based Charities	8,979	9,064
UK Government, Health and Hospital Authorities	5,430	5,316
UK Industry, Commerce and Public Corporations	4,272	3,392
EU Government Bodies	2,451	1,810
EU Other	318	351
Other Overseas	1,009	1,059
Other Sources	91	80
	<u>37,626</u>	<u>35,856</u>

This includes income of £1,089,000 (2005/06 - £970,000) from deferred capital grants.

Notes to the Financial Statements (continued)

Note 4 Other Operating Income

	2006/07	2005/06
	£000	£000
Residences, Catering and Conferences	15,101	14,458
Health Authority Funded Posts	11,648	11,139
Other Services Rendered	3,100	3,214
Bookshops	1,968	2,336
Other Income	7,290	7,662
	<hr/>	<hr/>
	39,107	38,809
	<hr/> <hr/>	<hr/> <hr/>

This includes income of £330,000 (2005/06: £320,000) from deferred capital grants.

Note 5 Endowment Income and Interest Receivable

	2006/07	2005/06
	£000	£000
Income from Current Asset Investments	1,494	1,120
Specific Endowments (<i>note 20</i>)	190	179
General Endowments (<i>note 20</i>)	28	29
	<hr/>	<hr/>
	1,712	1,328
	<hr/> <hr/>	<hr/> <hr/>

Note 6 Staff

	2006/07 £000	2005/06 £000
Staff Costs:		
Wages and Salaries	90,923	87,450
Social Security Costs	8,135	7,643
Other Pension Costs	<u>12,899</u>	<u>12,277</u>
	111,957	107,370
FRS 17 Adjustment	<u>(1,267)</u>	<u>(1,254)</u>
	<u>110,690</u>	<u>106,116</u>
Emoluments of the Vice-Chancellor:		
Salary and Benefits	196	184
Employer's Pension Contributions	<u>25</u>	<u>24</u>
	<u>221</u>	<u>208</u>

The pension contributions to the Universities Superannuation Scheme were at the standard rate of 14% of salary, as were applied to all staff in the USS. Remuneration of higher paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment were within the following ranges:

Remuneration of other higher-paid staff, excluding employer's pension contributions:

	All Staff		Staff on Clinical Scales		Staff on Non-clinical Scales	
	2006/07	2005/06	2006/07	2005/06	2006/07	2005/06
£70,000 - £80,000	32	25	13	11	19	14
£80,001 - £90,000	18	15	9	11	9	4
£90,001 - £100,000	10	15	5	11	5	4
£100,001 - £110,000	12	11	12	10	-	1
£110,001 - £120,000	10	8	10	8	-	-
£120,001 - £130,000	4	7	4	7	-	-
£130,001 - £140,000	6	9	6	9	-	-
£140,001 - £150,000	9	3	9	3	-	-
£150,001 - £160,000	3	5	3	5	-	-
£160,001 - £170,000	8	5	8	5	-	-
£170,001 - £180,000	3	3	3	3	-	-
£180,001 - £190,000	2	-	2	-	-	-
£190,001 - £200,000	-	-	-	-	-	-
£200,001 - £210,000	1	2	1	2	-	-
£210,001 - £220,000	1	-	1	-	-	-
£220,001 - £230,000	1	-	1	-	-	-

	2006/07 £000	2005/06 £000
Compensation for loss of office paid to former higher-paid staff:		
Compensation	-	65
Pension Benefits	55	178

The estimated value of other benefits has been calculated in accordance with FRS17.

Staff Numbers (full-time equivalent) by major category:

	2006/07 Number	2005/06 Number
Academic and Clinical	744	741
Research and Analogous	395	392
Administration, Library, Computer and Other Related	446	416
Technical	280	280
Clerical, Manual and Ancillary	<u>986</u>	<u>990</u>
	<u>2,851</u>	<u>2,819</u>

Notes to the Financial Statements (continued)

Note 7 Other Operating Expenses

	2006/07	2005/06
	£000	£000
Equipment and Furniture	7,341	7,531
Maintenance and Minor Works	5,601	6,705
Energy, Fuel and Water	4,902	4,765
Rent, Rates and Insurance	3,698	3,820
Books, Periodicals and General Publications	3,947	4,162
Stationery, Printing, Postage and Telephone	2,374	2,189
Consumables and Laboratory Expenditure	5,200	5,442
Staff Support	1,967	1,987
UK and Overseas Travel	2,616	2,223
Contracted Out and Fee Paid Staff Services	5,269	5,179
Pensions and Premature Retirement Costs	281	1,172
Students' Union Grant	760	650
Fellowships, Scholarships and Prizes	4,963	3,672
Catering Supplies	1,144	1,131
External Auditors' Remuneration for Audit Work	39	42
External Auditors' Remuneration for Non Audit Work	27	35
Internal Auditors' Remuneration for Audit Work	69	73
Other Expenditure	14,442	13,171
	<u>64,640</u>	<u>63,949</u>

Note 8 Interest Payable

	2006/07	2005/06
	£000	£000
Mortgage Loans:		
Repayable Within Five Years, Not by Instalments	–	554
Repayable Wholly or Partly in More Than Five Years	1,857	538
Pension Finance Costs	663	539
Other	140	–
	<u>2,660</u>	<u>1,631</u>

Note 9 Surplus / (Deficit) on Continuing Operations for the Year

The Surplus / (Deficit) on Continuing Operations for the year is made up as follows:

	2006/07 £000	2005/06 £000
University's Surplus / (Deficit) for the Year	5,054	(1,677)
Surplus Generated by the Subsidiary Undertaking and transferred to the University under Deed of Covenant	2	4
Effect of difference in accounting treatment between University and consolidated financial statements in respect of the purchase and depreciation of books	2,061	(477)
(Deficit) / Surplus made by Subsidiary Undertakings	(66)	170
Total	<u>7,051</u>	<u>(1,980)</u>

Note 10 Analysis of 2006/07 Expenditure by Activity

	Staff Costs	Other Operating Expenses	Depreciation	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic Departments	66,216	17,240	2,301	–	85,757
Academic Services	6,373	5,651	124	–	12,148
Research Grants and Contracts	18,071	11,209	1,089	–	30,369
Residences and Catering	4,258	7,021	1,164	1,647	14,090
Premises	4,931	10,080	1,979	211	17,201
Administration and Central Services	9,196	11,484	–	–	20,680
Other Expenditure	1,645	1,955	10	802	4,412
Total per Income and Expenditure Account	<u>110,690</u>	<u>64,640</u>	<u>6,667</u>	<u>2,660</u>	<u>184,657</u>

Other Operating Expenses of the Residences and Catering operations include the directly attributable premises costs. Thus premises expenditure relates to all University properties other than those used for Residences and Catering.

Notes to the Financial Statements (continued)

Note 11 Tangible Assets	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
Consolidated	£000	£000	£000	£000
Cost				
At 1 August 2006	125,649	10,354	26,636	162,639
Additions	21,231	–	4,320	25,551
Disposals	(347)	–	(36)	(383)
At 31 July 2007	146,533	10,354	30,920	187,807
Depreciation				
At 1 August 2006	10,815	1,529	23,561	35,905
Charge for the year	2,629	207	3,831	6,667
Eliminated on disposals	(76)	–	(12)	(88)
At 31 July 2007	13,368	1,736	27,380	42,484
Net Book Value				
At 1 August 2006	114,834	8,825	3,075	126,734
At 31 July 2007	133,165	8,618	3,540	145,323
University				
Cost				
At 1 August 2006	115,538	10,354	26,600	152,492
Additions	31,342	–	4,320	35,662
Disposals	(347)	–	–	(347)
At 31 July 2007	146,533	10,354	30,920	187,807
Depreciation				
At 1 August 2006	10,815	1,529	23,554	35,898
Charge for the year	2,629	207	3,826	6,662
Eliminated on disposals	(76)	–	–	(76)
At 31 July 2007	13,368	1,736	27,380	42,484
Net Book Value				
At 1 August 2006	104,723	8,825	3,046	116,594
At 31 July 2007	133,165	8,618	3,540	145,323

Land and buildings includes an amount of £28,084,685 in respect of assets under construction (2006 - £31,531,535). These assets are not depreciated until brought into use.

Land and buildings with a net book value of £57,938,411 and cost of £62,553,079 have been funded from Treasury sources: should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the HEFCE.

The depreciation charge has been funded by:
Deferred Capital Grants Released (*note 19*)
General Income

Consolidated and University

£000
4,690
1,977
<u>6,667</u>

Note 12 Investments

The University has interests in the following subsidiary and associated undertakings, all of which are registered in England and Wales, unless otherwise stated.

Subsidiary Undertakings

<i>Name</i>	<i>% Shareholding</i>	<i>Principal Activity</i>
Leicester Academic Library Services Limited (ceased trading on 28 February 2007)	100%	Provision of library services
Leicester Academic Trading Services Limited	100%	Provision of commercial services in association with the University

The consolidated financial statements incorporate the activities of Leicester Academic Library Services Limited. Leicester Academic Trading Services Limited commenced trading on 1 August 2007.

Associated Undertakings

<i>Name</i>	<i>% Shareholding or other interest</i>	<i>Principal Activity</i>
Scionix Limited	50%	Development of solvents for industrial purposes
OCB Media Limited	24.9%	Development and pursuit of electronically distributed high level e-learning material and multimedia products
Xcam Limited	5%	Design and manufacture of computers and electronic equipment
Perpetuity Research and Consultancy International Limited	15%	Provision of consultancy to the security sector
Bionutrix LLC. (registered in the USA)	10%	Development of the commercial potential of research in Microbiology
Haemostatix Limited	8%	Rational design and development of drugs
Pulsonix Limited	24%	Design and development of novel rapid battery chargers
Bioastral Limited	25%	To exploit the potential of adapting optical detection technology developed for space research to use in biological research

During the year the University has made an investment of £13,000 in Bioastral Limited.

The University's share of the profit or loss for the year and the net assets of the associated undertakings are not material to the University's financial statements and have therefore been excluded from the consolidation.

Notes to the Financial Statements (continued)

Note 13 Endowment Asset Investments

	Consolidated & University	
	2007	2006
	£000	£000
Balance at 1 August	5,716	4,958
Additions: Capital	84	1
Income	94	48
Appreciation on Revaluation	324	709
Balance at 31 July	6,218	5,716
Analysis of investments:		
Listed on London Stock Exchange:		
Fixed Interest Stocks	439	467
Equities	4,262	3,957
Not Listed:		
Equities	535	525
Cash Held on Deposit	982	767
	6,218	5,716

Note 14 Debtors

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
Amounts Falling Due Within One Year:				
Research Grants and Contracts	8,991	6,567	8,991	6,567
Amount owed by Subsidiary Undertaking	–	–	2	2,563
Assets held for sale	263	413	263	413
Other Debtors and Prepayments	11,503	13,119	11,480	12,942
Amounts Falling Due After More Than One Year:				
Amount owed by Subsidiary Undertaking	–	–	–	8,837
	20,757	20,099	20,736	31,322

Note 15 Current Asset Investments

	Consolidated & University	
	2007	2006
	£000	£000
Fixed Interest Stocks	622	631
Equities	2,320	2,206
Bank and Building Society Deposits	17,973	15,935
	20,915	18,772

Note 16 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
Mortgages and Other Loans	1,151	22,527	1,151	22,527
Payments Received on Account	18,091	16,206	18,091	14,766
Creditors	9,595	15,721	9,591	23,238
Social Security and Other Tax Payable	3,139	2,759	3,072	2,974
Accruals and Deferred Income	8,948	8,411	8,948	8,378
	<u>40,924</u>	<u>65,624</u>	<u>40,853</u>	<u>71,883</u>

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

	Consolidated & University	
	2007	2006
	£000	£000
Mortgages:		
Barclays Bank Plc repayable by 2018	9,869	-
Natwest Bank Plc repayable by 2019	4,266	4,474
Barclays Bank Plc repayable by 2031	22,188	-
	<u>36,323</u>	<u>4,474</u>

The mortgages are secured on a portion of freehold land and buildings of the University. The Natwest mortgage is repayable in instalments over periods up to 2019, with interest payable at a fixed rate of 9.753%. The Barclays mortgages are repayable in instalments over the periods up to 2018 and 2031 respectively at a rate of interest calculated at LIBOR plus 0.2319%.

Bank loans and mortgages are repayable as follows:

	Consolidated & University	
	2007	2006
	£000	£000
In one year or less (<i>note 16</i>)	1,151	22,527
Between one and two years	1,541	208
Between two and five years	4,950	744
In five or more years	29,832	3,522
	<u>37,474</u>	<u>27,001</u>

Notes to the Financial Statements (continued)

Note 18 Provisions for Liabilities and Charges

	Consolidated & University	
	2007	2006
	£000	£000
Balance at 1 August	375	158
Expenditure in the Year	(340)	(128)
Transferred from Income and Expenditure Account:		
In respect of pension costs	68	345
In respect of decommissioning	376	–
	<u>479</u>	<u>375</u>
Balance at 31 July	<u><u>479</u></u>	<u><u>375</u></u>

Included within provisions are amounts payable in respect of staff who have elected to take early retirement. This provision is additional to that disclosed within FRS 17. Also included are the expected costs of decommissioning certain scientific facilities within the University. Based upon knowledge at the date of the signing of the financial statements it is expected that the decommissioning may take place in around five years time.

Note 19 Deferred Capital Grants

	Funding Council £000	Other Grants & Benefactions £000	Total £000
Consolidated			
At 1 August 2006			
Buildings	52,904	14,957	67,861
Equipment	1,739	1,028	2,767
Total	54,643	15,985	70,628
Cash Received and Receivable			
Buildings	6,208	3,304	9,512
Equipment	2,357	802	3,159
Total	8,565	4,106	12,671
Released to Income and Expenditure			
Buildings	1,173	320	1,493
Equipment	2,098	1,099	3,197
Total	3,271	1,419	4,690
At 31 July 2007			
Buildings	57,939	17,941	75,880
Equipment	1,998	731	2,729
Total	59,937	18,672	78,609
University			
At 1 August 2006			
Buildings	45,523	14,957	60,480
Equipment	1,739	1,028	2,767
Total	47,262	15,985	63,247
Cash Received and Receivable			
Buildings	13,589	3,304	16,893
Equipment	2,357	802	3,159
Total	15,946	4,106	20,052
Released to Income and Expenditure			
Buildings	1,173	320	1,493
Equipment	2,098	1,099	3,197
Total	3,271	1,419	4,690
At 31 July 2007			
Buildings	57,939	17,941	75,880
Equipment	1,998	731	2,729
Total	59,937	18,672	78,609

Notes to the Financial Statements (continued)

Note 20 Endowments

	Specific £000	Consolidated & University General £000	Total £000
At 1 August 2006	4,602	1,114	5,716
Additions	84	–	84
Appreciation of Endowment Asset Investments	253	71	324
Income for Year (<i>note 5</i>)	190	28	218
Expenditure for Year	(96)	(28)	(124)
At 31 July 2007	5,033	1,185	6,218

Funds Exceeding £30,000

Specific

	2007 £000	2006 £000
Ulverscroft Endowment	427	394
Church Langton Fund	197	190
Frears Endowment	335	304
Stead and Simpson Fund	205	185
Spire Endowment	130	116
Hickman Bequest	49	45
Frank May Funds	102	93
Faire and Allaway Fund	99	87
Burton Holocaust Centre	237	224
Ellis Foundation	60	56
Street Travel Award	45	41
Medical Service Award	48	44
Bennett and Family Fund	40	37
Law Development Fund	69	63
Marc Fitch Fund	90	84
McKay Memorial Fund	47	43
Redfearn Memorial Fund	44	40
Janner Travel Fund	36	34
Sylvester-Bradley Award	36	34
Richard Attenborough Centre Fund	256	231
H.S. Bennett	38	34
Wathes Centenary Scholarship Fund	513	468
Hoskins-Duffield Fund	66	63
DF Bursary Fund	39	35
Babette Evans Bequest Fund	54	–
Hilda Bennett Legacy	32	–
Goldsmith Library Fund	32	–
Other Endowments	826	778
Movement In Market Value On Above Funds	881	879
	5,033	4,602

General

Robert Rowley Fund	158	142
Lewis Lilley Fund	233	214
Simpson Gee Fund	141	129
Tyler Chair	133	122
Bennett Lectureship	66	61
Norton Scholarship	51	47
Other Endowments	48	45
Movement In Market Value On Above Funds	355	354
	1,185	1,114

Note 21 General Reserve Including Pension Liability

	Consolidated	University
	£000	£000
Surplus after depreciation of fixed assets at cost and tax	7,051	5,054
Actuarial gain in respect of Pension Scheme	1,782	1,782
Balance at 1 August 2006	(3,260)	(1,461)
	<hr/>	<hr/>
Balance at 31 July 2007	5,573	5,375
	<hr/> <hr/>	<hr/> <hr/>

Note 22 Capital Commitments

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
Commitments Contracted at 31 July	11,873	21,396	11,873	5,016
Authorised but Not Contracted at 31 July	18,121	15,637	18,121	14,189
	<hr/>	<hr/>	<hr/>	<hr/>
	29,994	37,033	29,994	19,205
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Note 23 Contingent Liability

There are no contingent liabilities.

Note 24 Lease Obligations

At 31 July, the University had annual commitments under non-cancellable operating leases in respect of equipment and land and buildings as follows:

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
Leases expiring:				
Within one year	–	130	–	133
Between two and five years	352	102	352	132
Over five years	–	–	–	303
	<hr/>	<hr/>	<hr/>	<hr/>
	352	232	352	568
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The University has no finance lease commitments.

Notes to the Financial Statements (continued)

Note 25 Reconciliation of Consolidated Operating Surplus to Net Cash Flow from Operating Activities

	2006/07	2005/06
	£000	£000
Surplus / (Deficit) Before Tax	7,051	(1,980)
FRS 17 Adjustment	(604)	(716)
Depreciation (<i>note 11</i>)	6,667	4,891
Profit on Disposal of Assets	(6,307)	(779)
Deferred Capital Grants Released to Income (<i>note 19</i>)	(4,690)	(3,742)
Investment Income (<i>note 5</i>)	(1,712)	(1,328)
Interest Payable Excluding FRS 17	1,997	1,092
Decrease in Stocks	106	27
(Increase) in Debtors	(1,358)	(1,890)
(Decrease) / Increase in Creditors	(978)	8,717
Increase in Provisions	104	217
	<hr/>	<hr/>
Net Cash Inflow From Operating Activities	276	4,509
	<hr/> <hr/>	<hr/> <hr/>

Note 26 Returns on Investments and Servicing of Finance

	2006/07	2005/06
	£000	£000
Income from Endowments (<i>note 20</i>)	218	208
Income from Short Term Investments	1,686	1,074
Interest Paid	(2,072)	(988)
	<hr/>	<hr/>
	(168)	294
	<hr/> <hr/>	<hr/> <hr/>

Note 27 Capital Expenditure and Financial Investment

	2006/07	2005/06
	£000	£000
Tangible Assets Acquired (Other than Leased Equipment)	(27,822)	(31,529)
Proceeds from Tangible Asset Disposal	6,602	827
Fixed Asset Investments Acquired	(13)	–
Endowment Asset Investments Acquired (<i>note 13</i>)	(84)	(1)
Total Fixed and Endowment Asset Investments Acquired	<hr/> (21,317)	<hr/> (30,703)
Deferred Capital Grants Received	13,179	15,490
Endowments Received (<i>note 20</i>)	84	1
	<hr/>	<hr/>
	(8,054)	(15,212)
	<hr/> <hr/>	<hr/> <hr/>

Note 28 Analysis of Changes in Consolidated Financing During the Year

	Mortgages & Loans £000
Balances at 1 August 2005	8,341
Capital Repayments	(3,676)
New Loan Capital Drawdown	<u>22,336</u>
Balances at 31 July 2006	27,001
Capital Repayments	(191)
New Loan Capital Drawdown	10,664
Balances at 31 July 2007	<u><u>37,474</u></u>

Note 29 Analysis of Changes in Net (Debt)

	At 1 August £000	Cash Flows £000	Other Changes £000	At 31 July £000
Cash at Bank and in Hand	1,957	384	–	2,341
Short Term Deposits	18,772	2,143	–	20,915
Debt due within one year	(22,527)	191	21,185	(1,151)
Debt due after one year	(4,474)	–	(31,849)	(36,323)
	<u>(6,272)</u>	<u>2,718</u>	<u>(10,664)</u>	<u>(14,218)</u>
	<u><u>(6,272)</u></u>	<u><u>2,718</u></u>	<u><u>(10,664)</u></u>	<u><u>(14,218)</u></u>

Notes to the Financial Statements (continued)

Note 30 Pension Schemes

The University provides pension provision for its employees through the following four schemes:

- The Universities Superannuation Scheme (USS). This is a defined benefit scheme.
- The University of Leicester Pension and Assurance Scheme (PAS). This is a defined benefit scheme.
- The University of Leicester Stakeholder Scheme. This is a defined contribution scheme.
- The Department of Health Pension Scheme. This is a defined benefit scheme.

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

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

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

Standard mortality tables were used as follows:

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

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

Males	19.8 years
Females	22.8 years

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

Note 30 Pension Schemes (continued)

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimated that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

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

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

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £8,245,000 (2006: £7,967,000). This includes £776,000 (2006: £622,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

Notes to the Financial Statements (continued)

Note 30 Pension Schemes (continued)

Leicester Pension and Assurance Scheme (PAS)

The PAS is a defined benefit scheme and was closed to new entrants on 31 July 2003. The total contribution made for the year ended 31 July 2007 was £4,341,000 of which employers contributions totalled £3,526,000, employees contributions totalled £774,000 and other including annuity receipts totalled £41,000. The agreed contribution rates from 1 August 2006 are 28.7% for employers and 6.35% for employees.

FRS 17

The pensions cost is assessed every three years in accordance with the advice of a qualified independent actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 July 2004
Actuarial method	Attained age
Investment returns per annum	5.25 - 7.0%
Pension increases per annum	3.0%
Salary scale increases per annum	2004: 7.5%, thereafter 4.25%
Market value of assets at date of last valuation	£54,380m
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%

The following information is based upon the full actuarial valuation at 31 July 2004, updated to 31 July 2007 by a qualified independent actuary.

	2007	2006	2005
Rate of increase in salaries	4.25%	4.25%	4.30%
Rate of increase in pensions in payment:			
Post 5.4.88 GMPs	3.00%	3.00%	2.80%
Non-GMPs	3.25%	3.00%	2.80%
Discount rate	5.70%	5.25%	5.25%
Inflation assumption	3.25%	3.00%	2.80%
Commutation of pension for lump sums	0.00%	0.00%	0.00%

The assets in the scheme and the expected long term rate of return were:

	Rate of return expected at 31 July 2007	Value at 31 July 2007 £000	Rate of return expected at 31 July 2006	Value at 31 July 2006 £000	Rate of return expected at 31 July 2005	Value at 31 July 2005 £000
Equities	7.50%	56,876	7.00%	53,569	7.00%	50,773
Bonds	5.70%	30,564	5.25%	24,422	5.25%	15,474
Cash	5.00%	149	4.75%	248	4.75%	2,061
		<u>87,589</u>		<u>78,239</u>		<u>68,308</u>

Note 30 Pension Schemes (continued)

The following amounts at 31 July 2007 were measured in accordance with the requirements of FRS 17:

	2007 £000	2006 £000	2005 £000
Total market value of assets	87,589	78,239	68,308
Present value of scheme liabilities	(116,023)	(109,059)	(95,714)
(Deficit) in the scheme – Net pension liability	(28,434)	(30,820)	(27,406)

If the previously stated amounts had been recognised in the financial statements, the University's net assets and general reserve at 31 July 2007 would be as follows:

	2007 £000	2006 £000	2005 £000
Net assets excluding pension liability	118,834	103,904	95,372
Pension liability	(28,434)	(30,820)	(27,406)
Net assets including pension liability	90,400	73,084	67,966
General reserve excluding pension liability	34,007	27,560	30,256
Pension reserve	(28,434)	(30,820)	(27,406)
General reserve including pension liability	5,573	(3,260)	2,850

Analysis of amounts charged to Income and Expenditure Account:

	2006/07 £000	2005/06 £000
Current service cost	(2,259)	(2,393)
Past service cost	–	–
Financing:		
– expected return on pension scheme assets	5,077	4,511
– interest on expected scheme liabilities	(5,740)	(5,050)
Net return	(2,922)	(2,932)

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:

Actual return less expected return on pension scheme assets	2,382	3,182
Experience gains and losses arising on scheme liabilities	(388)	(4,439)
Changes in assumptions underlying the present value of scheme liabilities	(212)	(2,873)
Total actuarial gain / (loss) recognised	1,782	(4,130)

Notes to the Financial Statements (continued)

Note 30 Pension Schemes (continued)

The movement in the scheme's deficit during the year is made up as follows:

	2007 £000	2006 £000
Deficit on scheme at 1 August	(30,820)	(27,406)
Movement in year:		
– current service cost	(2,259)	(2,393)
– contributions	3,526	3,648
– past service costs	–	–
– other finance loss	(663)	(539)
– actuarial gain / (loss)	1,782	(4,130)
Deficit on scheme at 31 July	(28,434)	(30,820)

An updated actuarial valuation at 31 July 2007 showed a decrease in the deficit from £30,820 to £28,434 and there have been no improvements in benefits and contributions.

The gains and losses for the year ended 31 July 2007 were as follows:

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£000)	2,382	3,182	8,669	(469)	318
Percentage of scheme assets	2.7%	4.1%	12.7%	(0.9)%	0.7%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(388)	(4,439)	24	(615)	556
Percentage of the present value of scheme liabilities	(0.3)%	(4.1)%	0.0%	(0.8)%	0.8%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	1,782	(4,130)	(5,233)	1,723	(7,788)
Percentage of the present value of scheme liabilities	1.5%	(3.8)%	(5.5)%	2.3%	(10.6)%

Note 30 Pension Schemes (continued)

The University of Leicester Stakeholder Scheme

The University of Leicester Stakeholder Scheme is a defined contribution Scheme offered through Friends Provident. It was established on 1st August 2003 following the closure to new members of the University of Leicester PAS. The Scheme is open to support staff in salary grades level 5 and below. The Scheme has some 155 members.

The University contributes to the Scheme in proportion to that of member contributions. Members of the Scheme who contribute between 3% and 6% of their salary have added a contribution of double those amounts by the University, the first 3% of which provides the life assurance and health cover. The University's contribution is limited to 12% of salary.

The Scheme's advisors are Aon Consulting Limited. There is an annual management charge of 0.5% p.a. No commission is paid to Aon. The default investment strategy as advised by Aon is 70% Baillie Gifford Managed, 25% F and C Property and 5% F and C Fixed Interest. The Baillie Gifford fund carries an additional charge of 0.2% on top of the basic Scheme annual management charge. In the 5 years running up to retirement members existing funds and ongoing contributions are phased into the F and C Protector Fund and F and C Cash Fund through a balanced lifestyle programme.

The Scheme and its investment strategy were last reviewed by the University's Finance and General Purposes Committee on 15th March 2007.

NHS Scheme

The University has 103 clinical employees who are members of the NHS Pension Scheme. The University allows continued membership of the Scheme by its clinical employees who are already members of the Scheme, and contributes 14% of salary to the Scheme. Employees contribute 6% of salary to the Scheme.

Note 31 Related Party Transactions

Due to the nature of the University's operations and the 22 members of Council being drawn from local, public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arms length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

Note 32 Post Balance Sheet Events

There are no post balance sheet events.

Notes to the Financial Statements (continued)

Note 33 Access Funds

This memorandum account, showing the receipt, payment and closing balance of Access Funds is included to fulfil the requirements of HEFCE circular 22/95.

	2006/07 £000	2005/06 £000
Income		
HEFCE Grants	417	514
Interest	4	5
	<u>421</u>	<u>519</u>
Expenditure		
Expenditure in Relation to Eligible Students	416	508
Audit Fees	1	1
	<u>417</u>	<u>509</u>
Balance at 31 July	<u>4</u>	<u>10</u>

HEFCE grants are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

Note 34 Training and Development Agency for Schools

This memorandum account is required to be included by the Training and Development Agency for Schools as per circular 02/CORPS/0336.

	ITT Training Bursaries	
	2006/07 £000	2005/06 £000
Cash received	<u>2,159</u>	<u>1,903</u>
Bursaries paid	2,059	1,794
Administrative costs and training grant	35	37
VAT on administrative costs	6	7
	<u>2,100</u>	<u>1,838</u>
Repayable to TDA	<u>59</u>	<u>65</u>

The University acts as agent for the Training and Development Agency for Schools in the disbursement of these funds, and therefore cash received (other than income towards administrative costs and training grant) and bursaries paid are excluded from the Income and Expenditure Account.

Five Year Summary Accounts

Income and Expenditure Account

	2002/03	2003/04	2004/05	2005/06	2006/07
	£000	£000	£000	£000	£000
Income					
Funding Council Grants	44,424	45,710	52,349	57,432	62,227
Academic Fees and Support Grants	36,616	39,274	40,485	40,451	44,823
Research Grants and Contracts	36,970	36,233	34,969	35,856	37,626
Other Operating Income	35,812	39,181	38,561	38,809	39,107
Endowment Income and Interest	1,234	1,050	1,092	1,328	1,712
Profit on Disposal of Assets	–	386	2,193	779	6,307
Total Income	<u>155,056</u>	<u>161,834</u>	<u>169,649</u>	<u>174,655</u>	<u>191,802</u>
Expenditure					
Staff Costs	90,917	98,867	102,268	106,116	110,690
Other Operating Expenses	57,144	57,320	59,052	63,949	64,640
Depreciation	3,719	2,996	4,942	4,891	6,667
Interest Payable	819	790	1,611	1,631	2,660
Total Expenditure	<u>152,599</u>	<u>159,973</u>	<u>167,873</u>	<u>176,587</u>	<u>184,657</u>
Transfer to Specific Endowments	–	28	25	48	94
Surplus/(Deficit) for the year	<u>2,457</u>	<u>1,833</u>	<u>1,751</u>	<u>(1,980)</u>	<u>7,051</u>

Balance sheet

Fixed Assets	69,586	86,970	98,675	126,734	145,336
Endowment Asset Investments	3,653	4,011	4,958	5,716	6,218
Net Current Assets / (Liabilities)	8,623	2,945	(3,438)	(23,697)	4,082
Creditors: Amounts Due After One Year	(8,143)	(4,840)	(4,665)	(4,474)	(36,323)
Provisions for Liabilities and Charges	(1,449)	(738)	(158)	(375)	(479)
Pension Liability	–	–	(27,406)	(30,820)	(28,434)
Total Net Assets	<u>72,270</u>	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>	<u>90,400</u>
Represented By:					
Deferred Capital Grants	41,982	55,869	60,158	70,628	78,609
Endowments	3,653	4,011	4,958	5,716	6,218
General Reserve	26,635	28,468	30,256	27,560	34,007
Pension Reserve	–	–	(27,406)	(30,820)	(28,434)
Total Funds	<u>72,270</u>	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>	<u>90,400</u>

Financial Statistics

Sources of Income

% of Total Income	2002/03	2003/04	2004/05	2005/06	2006/07
Grants from Funding Councils (HEFCE and TDA)	28.7%	28.2%	30.8%	32.9%	32.4%
Academic Fees and Support Grants	23.6%	24.3%	23.9%	23.2%	23.4%
Research Grants and Contracts	23.8%	22.4%	20.6%	20.5%	19.6%
Residences, Catering and Conferences	8.5%	9.6%	8.9%	8.3%	7.9%
Other Income	15.4%	15.5%	15.8%	15.1%	16.7%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure					
Staff Costs	59.6%	61.8%	60.9%	60.1%	60.0%
Other Operating Expenses	37.5%	35.8%	35.2%	36.2%	35.0%
Depreciation	2.4%	1.9%	2.9%	2.8%	3.6%
Interest Payable	0.5%	0.5%	1.0%	0.9%	1.4%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus / (Deficit) for the Year as a % of Total Income	1.6%	1.1%	1.0%	(1.1)%	3.7%

Indicators of Financial Strength

Days Ratio of Total General Funds to Total Expenditure <i>To indicate the number of days total expenditure which could be met from general funds</i>	66	67	68	59	70
Days Ratio of Net Current Assets / (Liabilities) to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i>	21	7	(7)	(49)	8
% Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i>	30	17	15	16	103

Indicators of Liquidity and Solvency

% Ratio of Liquid Assets to Current Liabilities <i>Extent to which current liabilities could be met from cash and liquid investments</i>	82	41	35	33	57
Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i>	1.3	1.1	0.9	0.7	1.1
Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i>	42	64	60	62	61



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