

Financial Statements

2007 - 2008

Education that Inspires
Research that Changes the World

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Treasurer's Report for the Year Ended 31 July 2008

Format of the Financial Statements

The financial statements include the University, its trading subsidiary company Leicester Academic Trading Services Ltd and the near-dormant Leicester Academic Library Services Ltd. The University's interests in spin-out companies are listed, but none are material for inclusion in the financial statements.

Income and Expenditure Account

Total income rose by 11% to £205.312 million, while total expenditure increased by 10% to £203.815 million. The operating surplus was £1.497 million, compared to £865,000 in 2006/07.

The total surplus including all other items for the year was £1.350 million, after the transfer to endowed funds, which compares to £7.094 million in 2006/07. During the 2006/07 financial year the University made a surplus of £6.307 million on the sale of land. In 2007/08 there were no sales of land. This was a significant variance to the overall financial forecast for the year, which included surpluses of £9.469 million from such sales. There were expected to be two sales during the year. One property (Mary Gee Houses) failed to sell, as the property market deteriorated, and was brought back into operation during 2007/08 to cope with the increased number of students. The University is hopeful of completing the other transaction to sell College Hall during 2008/09, but this will depend on the broader economic climate, especially the property market.

The 2007/08 year got off to a very strong start with student intakes above target in almost all areas. This had a positive impact on the occupation levels in student residences.

The University was delighted to complete the building of the new David Wilson Library during the year, which opened at the start of April. This is a major capital project for the University, completed at a cost of £35 million. The building has been very well received by staff and students. It has won an excellence award in the 2008 Royal Institute of British Architects East Midlands Awards for Architecture, and the Pro Con Award for Building of the Year.

It is also very pleasing for the University to have achieved a 10% increase in income from research grants and contracts, which rose to £41.513 million during the 2007/08 year. The level of new research awards has increased significantly in the previous two years, and

income from research grants and contracts is expected to increase further in future years.

There were a number of unanticipated cost pressures during the year. The University terminated at a significant cost one of the School of Management's student recruitment agency arrangements, the benefit of which will flow through in subsequent years. The level of staff vacancies fell below the levels experienced in the recent past. A substantial charge was made for bad and doubtful debts following a deterioration in the age profile of students' fees. The University has made a further investment in credit control operations to ensure that in the current economic situations, there are sound processes to ensure the recovery of all debts.

Balance Sheet as at 31 July 2008

The main feature of the Balance Sheet is the substantial increase in tangible assets, which have increased by £9.601 million to reach £154.924 million as at 31 July 2008. This reflects capital expenditure of £16.597 million including equipment. Capital grants of £10.406 million were received in the year. The main item of expenditure was the completion of the David Wilson Library which comprises the new library space together with teaching space, some office and IT study spaces, the Student Development zone, a café and the University Bookshop.

Cash and investments totalled £22.248 million as at 31 July 2008. This was a fall of £1.383 million compared with the previous year end, which was a strong position, given the level of capital expenditure in the year.

Net current assets fell from £4.457 million at 31 July 2007 to £1.182 million as at 31 July 2008.

Cash Flow for the year to 31 July 2008

There was a net cash inflow of £4.919 million from operating activities during the year, which was a satisfactory result. The other main feature of the cash flow was the capital expenditure described above.

Pension Schemes

The University of Leicester Pension and Assurance Scheme is included in the accounts on the basis of its FRS17 valuation undertaken at 31 July 2008. This shows that the Scheme had net assets of £82.743 million at 31 July 2008, liabilities of £112.413 million and a

resultant deficit of £29.670 million. The value of the assets has fallen from £87.589 million at 31 July 2007 following the decline in the stock markets but the present value of the liabilities has also reduced in the year from last year's level of £116.023 million. The resultant deficit of £29.670 million at 31 July 2008 is therefore a little higher than the level reported at 31 July 2007, which was £28.434 million.

The University received the Scheme's triennial actuarial valuation as at 1 August 2007 in the year. This is the first valuation on the new Scheme Funding basis and the result showed that the Scheme's assets fell short of the value of its technical provisions by £10.2 million. This is equivalent to a 90% funding level, an improvement on the 2004 valuation which showed a 76% level of funding. The University has agreed that it will meet the shortfall by maintaining the current level of employer and employee contributions at 28.7% and 6.35% respectively and by also making an annual payment of £707,000 each year beginning 1 August 2008 and ending 31 July 2020.

Following the receipt of the valuation, the University has had discussions with the trade unions relating to a reduction in the Scheme's accrual rate. It also discussed the University's position in relation to the employee rate (which is currently the same as that operated by USS), should the USS employee rate change in future. Any changes relating to the accrual rate would be introduced in 2008/09.

The USS triennial actuarial valuation was undertaken in March 2008 and the results of this have not been formally announced. However, indications are that whilst there may be no past service deficit to finance, it is likely that both the University employers and possibly the employees will be faced with higher contributions if roughly the same benefits are to be provided. A significant increase in the employer rate would have a major impact on the University's financial and academic plan and the implications of this are something that may have to be faced in the coming year.

The Mission and Strategy for the University

The University of Leicester is a leading UK university committed to international excellence through the creation of world changing research and high quality inspirational teaching. The Vision for the University is: -

- We will be an established top ten UK university and rank in the top 150 institutions in the world.

- Our growing research strength will underpin this change. We will be a top ten British research university in terms of research income per head and research impact.
- We will build on our position as the pre-eminent university in the Midlands for teaching quality, student satisfaction and research impact. We will become Britain's top university for student satisfaction and teaching quality.

The University also aims to build its financial strength. The University's two key performance indicators in respect of finance are to achieve a 2% operating surplus (measured as the surplus after depreciation of tangible fixed assets and before taxation as a percentage of total income) each year from 2008/09 and to maintain a prudent level of cash and short-term investments, broadly measured as maintaining a minimum of one-month's payroll cost as the target balance. These two indicators have been a core part of the University's strategy for a number of years, and the University Council has focussed on how the objective can be achieved. 2007/08 was seen as a transitional year in terms of achieving the 2% surplus level, where not all new intakes of students are paying variable fees. It was not expected that it would be possible to achieve the 2%, and this was reflected in the budget for the year, which included an operating surplus of £1.131 million, before the transfer to endowments. It is pleasing that an actual result of £1.497 million was achieved as the actual operating surplus against this target.

Future Financial Outlook and Financial Risks

The Financial Forecasts to 2011/12 and budget for 2008/09 approved by Council in July 2008 included some challenging targets for the growth of both income and the surplus for the University. The 2008/09 financial year has a budget for income to grow to £221.228 million and for an operating surplus of £4.011 million, just short of the target of 2% within the University's financial strategy. Should the sale of College Hall take place, the total surplus would of course be significantly greater. This budget was arrived at after taking account of the disappointing loss of HEFCE funding for students with equivalent or lower qualifications which will lead to a total loss of around £2 million of income for the University after the transitional funding is phased out.

The achievement of this challenging budget is as always

Treasurer's Report for the Year Ended 31 July 2008 (continued)

dependent on any number of uncertain factors, never more so than in the present very difficult economic climate.

The 2008/09 year has started well. Student recruitment has again been very strong, exceeding targets in both undergraduate and postgraduate taught student areas. However, the 5% pay award from 1 October 2008 is higher than anticipated in the budget, and will lead to an increase of costs of around £850,000 during the 2008/09 year.

The main financial risks facing the University and mitigating actions are: -

1. That the increases in the student numbers and fee income in future years are not achieved. The University has been very successful in student recruitment in both 2007 and 2008, and continues to show strong application rates for 2009 entry. The University's vision is to build on our position as the pre-eminent University in the Midlands for teaching quality and student satisfaction.
2. That costs are not controlled. The University now has a strong record of controlling costs and delivering savings where required. Once the key financial uncertainties for the year are known, a decision on whether further value-for-money savings are required will be taken.
3. That the planned sales of fixed assets are not achieved. There is active monitoring of the programme of sales, which will continue in 2008/09. The University now expects to sell only one item in the 2008/09 year, and a number of scenarios have been considered to assess the impact on working capital if the sale does not proceed.
4. A rise in pension costs. There are risks from USS requiring higher contribution rates. The result will be known in December 2008.
5. A rise in interest rates increasing the costs of the borrowings in place. An interest rate hedging strategy has been put in place.

Conclusion

The University has invested heavily in its activities and facilities in the last few years, while also embedding a financial strategy of budgeting for a surplus of 2% of income, which is designed to create cash for reinvestment in the University's development. The 2007/08 result represents very satisfactory progress along that path, with good growth in income and a satisfactory operating surplus achieved, despite certain cost pressures. There is more to do in future years, but the recent successes of the University provide a good basis for progress.

I am standing down as Treasurer on 31 December 2008 after nine years. The outstanding progress which the University has made over this time, with turnover rising from £116 million to £205 million and tangible assets now of £155 million compared with £52 million, is a testament to the enthusiasm and commitment of every member of the University. It has been a huge privilege to be associated with the many exciting developments and to observe closely as the University year by year significantly increases its reputation in every sphere of its activities. What better exeat for a Treasurer to retire than in the year when the University of Leicester has been declared The Times Higher 'University of the Year'?

Dr M A Chamberlain
Treasurer
1 December 2008

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. The University is satisfied that it has complied with the provisions of the Code, in so far as it is applicable.

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

Corporate Governance (continued)

obtaining the relevant degree of assurance and not 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 2008 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 2008 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 2012, 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 income for grants and specific purposes and from other restricted funds administered by the University have been expended on the purpose for which they have been provided;
- 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;

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

- 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;
- 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
1 December 2008

Members of Council

The Members of Council who served in the financial year were as follows:

Sir Peter Williams
Professor J. Ainley (from 1 August 2007)
Mr P. Ash (from 1 August 2007)
Mr R. H. Bettles
Mr M. Bodenham (from 1 August 2007 to
30 November 2007)
His Hon. Judge D. Brunning
Professor R. G. Burgess
Dr M. A. Chamberlain
Mr P. J. Cottingham (until 31 July 2008)
Professor J. C. Fothergill (until 31 July 2008)
Ms C. Fyfe (from 1 August 2007)
Ms F. Hussain
Professor P. M. Jackson
Mr D. M. James
Professor I. Lauder (until 31 July 2008)
Ms A. Linsell
Professor M. Lovell (from 1 August 2007)
Mr A. M. Mamujee
Mr A. Porter (from 1 August 2007 to 31 July 2008)
Professor I. Postlethwaite
Professor M. P. Thompson
Dr B. E. Towle
Mr A. R. Weston (until 31 July 2008)
Mr D. J. Woodhead

New appointments since 1 August 2008:

Ms K. Dyer (from 1 August 2008)
Mr R. Kenyon (from 1 August 2008)
Dr N. Reed (from 1 August 2008)
Professor W. Wynford-Thomas (from 1 October 2008)

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 2008 which comprise the consolidated Income and Expenditure Account, the Group and University Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with 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 financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, 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 pages 7 and 8.

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 Financial Memorandum with 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.

In addition we report to you if, in our opinion, 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 judgments 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 the Group and the University's affairs as at 31 July 2008 and of the Group's surplus of income over expenditure for the year then ended;

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

- 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 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 2008 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2008 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 Financial Memorandum with the Training and Development Agency for Schools.

KPMG LLP
1 December 2008
Chartered Accountants
Registered Auditor

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. In adopting the SORP for the first time in the current year, the University has made certain restatements to the financial statements and these are disclosed in Note 35.

The following accounting policies have been applied consistently in dealing with items which are considered to be material in relation to the group'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 2008. 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

Funding Council recurrent grant income represents income in support of general or specific revenue activities of the University during the period and is credited direct to the Income and Expenditure Account.

Tuition fees represent student fees received and receivable, which are attributable to the current accounting period.

Income from research grants, contracts and other services rendered is included to the extent of the expenditure incurred during the year. Contributions towards overhead costs are aligned with expenditure and recognised based on expenditure to date. All income from short-term deposits and unrestricted asset investments is credited to the Income and Expenditure Account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment is transferred from the Income and Expenditure Account to restricted endowments.

4. Accounting for Charitable Donations

Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received, or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment funds

Where charitable donations are to be retained for the benefit of the University as specified by the donors, these amounts are accounted for as endowments. There are three main types:

Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.

Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income.

Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the Balance Sheet as a deferred capital grant. The deferred capital grant is released to the Income and Expenditure Account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'Other Income' or 'Deferred Capital Grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

Donations received to be applied to the cost of land are recognised by inclusion as 'Other Income' in the Income and Expenditure Account.

Statement of Principal Accounting Policies (continued)

5. 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.

The University of Leicester Pension and Assurance Scheme is accounted for on the basis of FRS17. The assets of the scheme are included at market value and scheme liabilities are measured on an actuarial basis using the defined accrued benefit method. The difference between the fair value of assets and liabilities measured on an actuarial basis, are recognised in the University's balance sheet as a pension scheme liability or asset as appropriate. A surplus is only included to the extent that the University is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The movement in the scheme asset or liability is split between operating charges, finance items and in the Statement of Total Recognised Gains and Losses. 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.

6. 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.

7. Leases

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

8. 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. 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.

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

9. 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.

10. Heritage Assets

The University holds a number of collections, exhibits and artefacts most of which have been donated or bequeathed to the University. These assets cannot be reliably valued and are therefore not included within the financial statements.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. Agency Arrangements

Funds that the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. These have been disclosed in Note 32.

Consolidated Income and Expenditure Account

		2007/08	Restated 2006/07
Income	Note	£000	£000
Funding Body Grants	1	66,107	62,227
Tuition Fees and Education Contracts	2	57,580	45,938
Research Grants and Contracts	3	41,513	37,626
Other Income	4	38,180	38,019
Endowment and Investment Income	5	1,932	1,712
		<hr/>	<hr/>
Total Income		205,312	185,522
		<hr/> <hr/>	<hr/> <hr/>
Expenditure			
Staff Costs	6	119,473	110,690
Other Operating Expenses	7	74,585	64,640
Depreciation	11	6,996	6,667
Interest and Other Finance Costs	8	2,761	2,660
		<hr/>	<hr/>
Total Expenditure	9	203,815	184,657
		<hr/> <hr/>	<hr/> <hr/>
Surplus After Depreciation of Tangible Fixed Assets and Before Tax		1,497	865
Taxation		–	–
		<hr/>	<hr/>
Surplus After Depreciation of Tangible Fixed Assets and Tax / Surplus Before Exceptional Items		1,497	865
Exceptional Items	10	–	6,307
		<hr/>	<hr/>
Surplus After Depreciation of Assets at Cost, Disposals of Assets and Tax		1,497	7,172
Transfer to Accumulated Income in Endowment Funds	13	(147)	(78)
		<hr/>	<hr/>
Surplus for the Year Retained Within General Reserves		1,350	7,094
		<hr/> <hr/>	<hr/> <hr/>

- There is no difference between the retained surplus shown above and its historical cost equivalent.
- All items of income and expenditure arise from continuing operations.

Statement of Consolidated Total Recognised Gains and Losses

	Note	2007/08 £000	Restated 2006/07 £000
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax		1,497	7,172
(Depreciation) / Appreciation of Endowment Asset Investments	20	(575)	297
New Endowments	20	13	84
Actuarial (Loss) / Gain in Respect of Pension Scheme	34	(1,325)	1,782
Total Recognised (Losses) / Gains Relating to the Year		(390)	9,335
Prior Year Adjustment	35	761	
Total Recognised Gain Since Last Financial Statements		371	
Reconciliation			
		2007/08 £000	Restated 2006/07 £000
Opening Reserves and Endowments as Previously Stated		11,790	
Prior Year Adjustment		761	
Opening Reserves and Endowments as Restated		12,551	3,216
Total Recognised (Losses) / Gains for the Year		(390)	9,335
Closing Reserves and Endowments		12,161	12,551

Balance Sheets

	Note	Consolidated		University	
		2008 £000	Restated 2007 £000	2008 £000	Restated 2007 £000
Fixed Assets					
Tangible Assets	11	154,924	145,323	154,924	145,323
Investments		49	13	49	13
		<u>154,973</u>	<u>145,336</u>	<u>154,973</u>	<u>145,336</u>
Endowment Asset Investments	13	<u>5,427</u>	<u>5,842</u>	<u>5,427</u>	<u>5,842</u>
Current Assets					
Stocks		918	993	918	993
Debtors	14	21,212	20,757	22,420	20,736
Investments	15	18,800	21,290	18,800	21,290
Cash at Bank and in Hand		3,448	2,341	3,255	2,093
		<u>44,378</u>	<u>45,381</u>	<u>45,393</u>	<u>45,112</u>
Creditors: Amounts Falling Due Within One Year	16	<u>(43,196)</u>	<u>(40,924)</u>	<u>(44,403)</u>	<u>(40,853)</u>
Net Current Assets		<u>1,182</u>	<u>4,457</u>	<u>990</u>	<u>4,259</u>
Total Assets Less Current Liabilities		<u>161,582</u>	<u>155,635</u>	<u>161,390</u>	<u>155,437</u>
Creditors: Amounts Falling Due After More Than One Year	17	<u>(35,014)</u>	<u>(36,323)</u>	<u>(35,014)</u>	<u>(36,323)</u>
Provisions for Liabilities and Charges	18	<u>(639)</u>	<u>(479)</u>	<u>(639)</u>	<u>(479)</u>
Net Assets Excluding Pension Liability		<u>125,929</u>	<u>118,833</u>	<u>125,737</u>	<u>118,635</u>
Pension Liability	34	<u>(29,670)</u>	<u>(28,434)</u>	<u>(29,670)</u>	<u>(28,434)</u>
Net Assets Including Pension Liability		<u>96,259</u>	<u>90,399</u>	<u>96,067</u>	<u>90,201</u>
Deferred Capital Grants	19	<u>84,098</u>	<u>77,848</u>	<u>84,098</u>	<u>77,848</u>
Endowments					
Expendable	20	389	328	389	328
Permanent	20	5,038	5,514	5,038	5,514
		<u>5,427</u>	<u>5,842</u>	<u>5,427</u>	<u>5,842</u>
Reserves					
General Reserve Excluding Pension Liability		36,404	35,143	36,212	34,945
Pension Reserve	34	(29,670)	(28,434)	(29,670)	(28,434)
General Reserve Including Pension Liability	21	<u>6,734</u>	<u>6,709</u>	<u>6,542</u>	<u>6,511</u>
Total		<u>96,259</u>	<u>90,399</u>	<u>96,067</u>	<u>90,201</u>

Professor R.G. Burgess, Vice-Chancellor
R.H. Bettles, Chairman of the Council
Dr M.A. Chamberlain, Treasurer
1 December 2008

Consolidated Cash Flow Statement

	Note	2007/08 £000	Restated 2006/07 £000
Net Cash Inflow From Operating Activities	22	4,919	318
Returns on Investments and Servicing of Finance	23	(60)	(168)
Taxation		–	–
Capital Expenditure and Financial Investment	24	(5,308)	(8,054)
Management of Liquid Resources	25	2,490	(2,185)
Financing	26	(934)	10,473
Increase in Cash in the Year	27	<u>1,107</u>	<u>384</u>

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2007/08 £000	Restated 2006/07 £000
Increase in Cash in the Year	27	1,107	384
Change in Short Term Deposits	27	(2,490)	2,518
Change in Debt	26	<u>934</u>	<u>(10,473)</u>
Change in Net Debt		(449)	(7,571)
Net Debt at 1 August	27	(13,843)	(6,272)
Net Debt at 31 July	27	<u>(14,292)</u>	<u>(13,843)</u>

Notes to the Financial Statements

Note 1 Funding Body Grants

	2007/08	2006/07
	£000	£000
Recurrent Grant		
Higher Education Funding Council for England	55,723	52,246
Training and Development Agency for Schools	1,895	1,692
Specific Grants		
Higher Education Innovation Fund	758	372
Teaching Quality Enhancement Fund	419	409
Skills for Sustainable Communities: Lifelong Learning Network	1,038	231
Centres for Excellence in Teaching and Learning	899	1,601
Training and Development Agency for Schools Specific Grants	159	93
Other Specific Grants	2,275	2,312
Deferred Capital Grants Released in Year		
Buildings	1,624	1,173
Equipment	1,317	2,098
	<u>66,107</u>	<u>62,227</u>

Note 2 Tuition Fees and Education Contracts

	2007/08	2006/07
	£000	£000
Full-time Home and EU Students	20,415	15,348
Full-time International Students	17,978	14,708
Part-time Students	17,290	14,687
Research Training Support Grants	1,897	1,195
	<u>57,580</u>	<u>45,938</u>

Note 3 Research Grants and Contracts

	2007/08	2006/07
	£000	£000
Research Councils and Charities	16,864	15,076
UK Based Charities	10,412	8,979
UK Government, Health and Hospital Authorities	5,622	5,430
UK Industry, Commerce and Public Corporations	3,632	4,272
EU Government Bodies	3,477	2,451
EU Other	717	318
Other Overseas	627	1,009
Other Sources	162	91
	<u>41,513</u>	<u>37,626</u>

Note 4 Other Income

	2007/08	Restated 2006/07
	£000	£000
Residences, Catering and Conferences	14,551	15,101
Health Authority Funded Posts	11,617	11,648
Other Services Rendered	2,180	3,100
Bookshops	1,806	1,968
Deferred Capital Grants Released in the Year:		
Buildings	419	320
Equipment	796	1,099
Other Income	6,811	4,783
	<u>38,180</u>	<u>38,019</u>

Note 5 Endowment and Investment Income

	2007/08	Restated 2006/07
	£000	£000
Income from Expendable Endowments	77	14
Income from Permanent Endowments	196	186
Income from Current Asset Investments and Cash at Bank	1,659	1,512
	<u>1,932</u>	<u>1,712</u>

Notes to the Financial Statements (continued)

Note 6 Staff Costs	2007/08	2006/07
	£000	£000
Staff Costs:		
Salaries	97,953	90,923
Social Security Costs	8,524	8,135
Other Pension Costs	13,652	12,899
	<u>120,129</u>	<u>111,957</u>
FRS 17 Adjustment	(656)	(1,267)
	<u>119,473</u>	<u>110,690</u>
Emoluments of the Vice-Chancellor:		
Salary and Benefits	224	196
Employer's Pension Contributions	30	25
	<u>254</u>	<u>221</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. The University introduced a salary sacrifice scheme for this pension scheme during the year. Under the scheme the employee agrees to reduce their gross contractual pay by the amount of the regular pension contributions to USS. The University increased its contributions to USS by an amount equivalent to the employees regular pension contribution. Members of the Universities Superannuation Scheme (including the Vice-Chancellor) were automatically included in the salary sacrifice scheme from 1 July 2008.

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	
	2007/08	2006/07	2007/08	2006/07	2007/08	2006/07
£100,000 - £109,999	10	12	6	12	4	-
£110,000 - £119,999	12	10	11	10	1	-
£120,000 - £129,999	8	4	8	4	-	-
£130,000 - £139,999	2	6	2	6	-	-
£140,000 - £149,999	10	9	10	9	-	-
£150,000 - £159,999	6	3	6	3	-	-
£160,000 - £169,999	4	8	4	8	-	-
£170,000 - £179,999	6	3	6	3	-	-
£180,000 - £189,999	1	2	1	2	-	-
£190,000 - £199,999	-	-	-	-	-	-
£200,000 - £209,999	1	1	1	1	-	-
£210,000 - £219,999	2	1	2	1	-	-
£220,000 - £229,999	-	1	-	1	-	-
£230,000 - £239,999	1	-	1	-	-	-

Compensation for loss of office paid to former higher-paid staff:	2007/08	2006/07
	£000	£000
Compensation	65	-
Pension Benefits	-	55

Staff Numbers (full-time equivalent) by major category:	2007/08	2006/07
	Number	Number
Academic and Clinical	775	744
Research and Analogous	405	395
Administration, Library, Computer and Other Related	479	446
Technical	306	280
Clerical, Manual and Ancillary	1,000	986
	<u>2,965</u>	<u>2,851</u>

Note 7 Other Operating Expenses

	2007/08	2006/07
	£000	£000
Equipment and Furniture	8,688	7,341
Maintenance and Minor Works	8,013	5,601
Energy, Fuel and Water	4,690	4,902
Rent, Rates and Insurance	1,645	3,698
Books, Periodicals and General Publications	4,250	3,947
Stationery, Printing, Postage and Telephone	2,590	2,374
Consumables and Laboratory Expenditure	6,466	5,200
Staff Support	2,627	1,967
UK and Overseas Travel	2,943	2,616
Contracted Out and Fee Paid Staff Services	6,573	5,269
Pensions and Premature Retirement Costs	290	281
Students' Union Grant	691	760
Fellowships, Scholarships and Prizes	5,225	4,963
Catering Supplies	1,269	1,144
External Auditors' Remuneration in Respect of Audit Services	47	39
External Auditors' Remuneration in Respect of Non-Audit Services	44	27
Internal Auditors' Remuneration in Respect of Audit Services	60	69
Student Recruitment and Agency Fees	4,810	2,425
Other Expenditure	13,664	12,017
	<u>74,585</u>	<u>64,640</u>

Note 8 Interest and Other Finance Costs

	2007/08	2006/07
	£000	£000
Loans Wholly or Partly Repayable in More than Five Years	2,194	1,857
Net Charge on Pension Scheme	567	663
Other	-	140
	<u>2,761</u>	<u>2,660</u>

Notes to the Financial Statements (continued)

Note 9 Analysis of Total Expenditure by Activity

	2007/08	2006/07
	£000	£000
Academic Departments	93,092	85,757
Academic Services	12,733	12,148
Administration and Central Services	25,749	20,680
Premises	22,104	17,201
Residences, Catering and Conferences	12,886	14,090
Research Grants and Contracts	33,601	30,369
Other Expenses	3,650	4,412
	<u>203,815</u>	<u>184,657</u>
Other Operating Expenses Include:		
Operating Lease Rentals:		
Land and Buildings	119	119
Other	180	352

Note 10 Exceptional Items

	2007/08	2006/07
	£000	£000
Profit on the Disposal of Fixed Assets	<u>–</u>	<u>6,307</u>

During the 2006/07 year a number of properties in the University's Knighton Residential Estate were sold. The proceeds were reinvested in other capital developments by the University.

There were no disposals during the 2007/08 year.

Note 11 Tangible Assets

	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	Equipment £000	Assets in the Course of Construction £000	Total £000
Consolidated and University					
Cost					
At 1 August 2007	118,448	10,354	30,920	28,085	187,807
Additions	12,945	–	2,835	817	16,597
Disposals	–	–	–	–	–
Transfers at cost	27,803	–	–	(27,803)	–
At 31 July 2008	159,196	10,354	33,755	1,099	204,404
Depreciation					
At 1 August 2007	13,368	1,736	27,380	–	42,484
Charge for the year	3,744	207	3,045	–	6,996
Eliminated on disposals	–	–	–	–	–
At 31 July 2008	17,112	1,943	30,425	–	49,480
Net Book Value					
At 1 August 2007	105,080	8,618	3,540	28,085	145,323
At 31 July 2008	142,084	8,411	3,330	1,099	154,924

Land and buildings with a net book value of £64,522,260 and cost of £71,419,593 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.

Leasehold land and buildings includes a 125 year lease commencing 1996 from Wyggeston and Queen Elizabeth I College with a net book value of £5,529,650 and a cost of £6,471,154. The remaining leasehold land and buildings represents leases for various Leicester NHS sites.

The University occupies space in a number of NHS owned properties, for which it pays no rent due to the existence of long-standing reciprocal cost sharing agreements. It is not practicable to assign a value to these occupancies.

	Consolidated and University £000
The depreciation charge has been funded by:	
Deferred Capital Grants Released (<i>note 19</i>)	4,156
General Income	2,840
	<u>6,996</u>

Notes to the Financial Statements (continued)

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%	Not trading
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 and Leicester Academic Trading Services Limited.

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	25%	Development and pursuit of electronically distributed high level e-learning material and multimedia products
TTE Systems Limited	40%	Design and development of software modules for embedded systems
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	6%	Rational design and development of drugs
Pulsonix Limited	24%	Design and development of novel rapid battery chargers
Bioastral Limited	27%	To exploit the potential of adapting optical detection technology developed for space research to use in biological research

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.

Note 13 Endowment Asset Investments

	Consolidated & University	
	2008	Restated 2007
	£000	£000
Balance at 1 August	5,842	5,383
Additions: Capital	13	84
Income	147	78
(Depreciation) / Appreciation on Revaluation	(575)	297
Balance at 31 July	<u>5,427</u>	<u>5,842</u>
Represented by:		
Securities	4,588	5,150
Cash at Bank Held for Endowment Funds	839	692
	<u>5,427</u>	<u>5,842</u>

Note 14 Debtors

	Consolidated		University	
	2008	2007	2008	2007
	£000	£000	£000	£000
Amounts Falling Due Within One Year:				
Research Grants and Contracts	11,881	8,991	11,881	8,991
Amount Owed by Subsidiary Undertaking	–	–	1,216	2
Assets Held for Sale	263	263	263	263
Other Debtors and Prepayments	9,068	11,503	9,060	11,480
	<u>21,212</u>	<u>20,757</u>	<u>22,420</u>	<u>20,736</u>

Note 15 Current Asset Investments

	Consolidated & University	
	2008	Restated 2007
	£000	£000
Fixed Interest Stocks	704	701
Equities	2,630	2,616
Bank and Building Society Deposits	15,466	17,973
	<u>18,800</u>	<u>21,290</u>

The bank and building society deposits shown above include £9 million held on time deposits. The weighted average interest rate receivable was 5.6% and these are held for an average period of 24 days. In addition, £6.437 million was held in instant access accounts.

Notes to the Financial Statements (continued)

Note 16 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2008	2007	2008	2007
	£000	£000	£000	£000
Mortgages and Other Loans	1,526	1,151	1,526	1,151
Research Grants and Contracts	10,765	10,385	10,765	10,385
Payments Received in Advance	9,627	7,706	9,627	7,706
Creditors	11,234	9,595	11,233	9,591
Social Security and Other Tax Payable	3,023	3,139	3,023	3,072
Accruals and Deferred Income	7,021	8,948	7,021	8,948
Amount Owed to Subsidiary Undertaking	–	–	1,208	–
	<u>43,196</u>	<u>40,924</u>	<u>44,403</u>	<u>40,853</u>

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

	Consolidated & University	
	2008	2007
	£000	£000
Mortgages:		
Barclays Bank Plc repayable by 2018	9,215	9,869
Natwest Bank Plc repayable by 2019	4,039	4,266
Barclays Bank Plc repayable by 2031	21,760	22,188
	<u>35,014</u>	<u>36,323</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	
	2008	2007
	£000	£000
In one year or less (<i>note 16</i>)	1,526	1,151
Between one and two years	1,615	1,541
Between two and five years	5,427	4,950
In five or more years	27,972	29,832
	<u>36,540</u>	<u>37,474</u>

Note 18 Provisions for Liabilities and Charges

	Consolidated & University	
	2008	2007
	£000	£000
Balance at 1 August	479	375
Expenditure in the Year	(20)	(340)
Transferred from Income and Expenditure Account:		
In Respect of Pension Costs	180	68
In Respect of Decommissioning	–	376
Balance at 31 July	<u>639</u>	<u>479</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 in the balance at 1 August 2007 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 and University			
At 1 August 2007			
Buildings (Restated see note 35)	57,372	17,747	75,119
Equipment	1,998	731	2,729
Total	<u>59,370</u>	<u>18,478</u>	<u>77,848</u>
Cash Received and Receivable			
Buildings	8,208	887	9,095
Equipment	314	997	1,311
Total	<u>8,522</u>	<u>1,884</u>	<u>10,406</u>
Released to Income and Expenditure			
Buildings	1,624	419	2,043
Equipment	1,317	796	2,113
Total	<u>2,941</u>	<u>1,215</u>	<u>4,156</u>
At 31 July 2008			
Buildings	63,956	18,215	82,171
Equipment	995	932	1,927
Total	<u>64,951</u>	<u>19,147</u>	<u>84,098</u>

Notes to the Financial Statements (continued)

Note 20 Endowments

	Consolidated & University				2008 Total £000	Restated 2007 Total £000
	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000		
Balances at 1 August						
Capital	1,013	3,931	4,944	206	5,150	4,769
Accumulated Income	–	570	570	122	692	614
	<u>1,013</u>	<u>4,501</u>	<u>5,514</u>	<u>328</u>	<u>5,842</u>	<u>5,383</u>
New Endowments	–	13	13	–	13	84
Investment Income	39	157	196	77	273	200
Expenditure	(39)	(71)	(110)	(16)	(126)	(122)
	<u>–</u>	<u>86</u>	<u>86</u>	<u>61</u>	<u>147</u>	<u>78</u>
(Decrease) / Increase in Market Value of Investments	(132)	(443)	(575)	–	(575)	297
Balance at 31 July	<u>881</u>	<u>4,157</u>	<u>5,038</u>	<u>389</u>	<u>5,427</u>	<u>5,842</u>
Represented by:						
Capital	881	3,501	4,382	206	4,588	5,150
Accumulated Income	–	656	656	183	839	692
	<u>881</u>	<u>4,157</u>	<u>5,038</u>	<u>389</u>	<u>5,427</u>	<u>5,842</u>

In previous years endowments were analysed as general endowments and specific endowments. The revised headings above reflect the requirements of the SORP and the University's accounting policies.

Note 20 Endowments (continued)**Funds Exceeding £50,000 at 31 July**

	2008	Restated
	£000	2007
		£000
Restricted Permanent		
Wathes Centenary Scholarship Fund	557	513
Ulverscroft Endowment	449	427
Frears Endowment	362	335
Burton Holocaust Centre	235	237
Church Langton Fund	212	197
Spire Endowment	140	130
Faire and Allaway Fund	108	99
Frank May Funds	107	102
Marc Fitch Fund	97	90
Law Development Fund	74	69
Hoskins-Duffield Fund	72	66
Ellis Foundation	64	60
Babette Evans Bequest Fund	58	54
Hickman Bequest	53	49
Medical Service Award	52	48
McKay Memorial Fund	51	47
Restricted Expendable		
Richard Attenborough Centre Fund	267	256
Unrestricted Permanent		
Lewis Lilley Fund	246	233
Simpson Gee Fund	148	141
Tyler Chair	140	133
FW Bennett Lectureship	70	66
Norton Scholarship	53	51

Notes to the Financial Statements (continued)

Note 21 General Reserve Including Pension Liability

	Consolidated	University
	£000	£000
Balance at 1 August 2007 as Previously Stated	5,573	5,375
Prior Year Adjustment (<i>note 35</i>)	1,136	1,136
Balance at 1 August 2007 as Restated	<u>6,709</u>	<u>6,511</u>
Surplus Retained for the Year	1,350	1,356
Actuarial Loss in Respect of Pension Scheme	(1,325)	(1,325)
Balance at 31 July 2008	<u><u>6,734</u></u>	<u><u>6,542</u></u>

Note 22 Reconciliation of Surplus before Tax and Profit on Disposal of Assets to Net Cash Inflow from Operating Activities

	2007/08	Restated 2006/07
	£000	£000
Surplus after Depreciation of Tangible Fixed Assets at Valuation and before Tax	1,350	7,094
Depreciation (<i>note 11</i>)	6,996	6,667
Profit on Disposal of Assets	–	(6,307)
Deferred Capital Grants Released to Income (<i>note 19</i>)	(4,156)	(4,690)
Investment Income (<i>note 5</i>)	(1,932)	(1,712)
Interest Payable Excluding FRS 17	2,194	1,997
Decrease in Stocks	75	106
(Increase) in Debtors	(1,914)	(1,358)
Increase / (Decrease) in Creditors	2,235	(979)
Increase in Provisions	160	104
Pension Costs Less Contributions Payable	(89)	(604)
Net Cash Inflow From Operating Activities	<u><u>4,919</u></u>	<u><u>318</u></u>

Note 23 Returns on Investments and Servicing of Finance

	2007/08	Restated 2006/07
	£000	£000
Income from Endowments (<i>note 20</i>)	273	200
Other Interest Received	1,647	1,704
Interest Paid	(1,980)	(2,072)
	<u><u>(60)</u></u>	<u><u>(168)</u></u>

Note 24 Capital Expenditure and Financial Investment

	2007/08	Restated 2006/07
	£000	£000
Proceeds from Sales of Fixed Assets	–	6,602
Fixed Asset Investments Acquired	(36)	(13)
New Endowments Received (<i>note 20</i>)	13	84
Endowment Funds Invested (<i>note 13</i>)	(13)	(84)
Payments made to Acquire Fixed Assets	(17,290)	(27,822)
Deferred Capital Grants Received	12,018	13,179
Net Cash Outflow for Capital Expenditure and Financial Investment	<u>(5,308)</u>	<u>(8,054)</u>

Note 25 Management of Liquid Resources

	2007/08	Restated 2006/07
	£000	£000
Withdrawals from Deposits	<u>2,490</u>	<u>(2,185)</u>

Note 26 Financing

	2007/08	2006/07
	£000	£000
New Secured Loans	–	10,664
Repayments of Amounts Borrowed	(934)	(191)
	<u>(934)</u>	<u>10,473</u>

Note 27 Analysis of Changes in Net Debt

	Restated At 1 August 2007	Cash Flows	Other Changes	At 31 July 2008
	£000	£000	£000	£000
Cash at Bank and in Hand	2,341	1,107	–	3,448
Short Term Investments	21,290	(2,490)	–	18,800
Debt Due Within One Year	(1,151)	934	(1,309)	(1,526)
Debt Due After One Year	(36,323)	–	1,309	(35,014)
	<u>(13,843)</u>	<u>(449)</u>	<u>–</u>	<u>(14,292)</u>

Notes to the Financial Statements (continued)

Note 28 Capital Commitments

	Consolidated		University	
	2008 £000	2007 £000	2008 £000	2007 £000
Commitments Contracted at 31 July	2,865	11,873	2,865	11,873
Authorised but Not Contracted at 31 July	28,821	18,121	28,821	18,121
	<u>31,686</u>	<u>29,994</u>	<u>31,686</u>	<u>29,994</u>

Note 29 Contingent Liability

The University is a member of UM Association (Special Risks) Limited, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year the members are liable for their prorated share spread using a bank facility over 7 years. No liability has yet arisen under this guarantee.

Note 30 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			
	2008 Land & Buildings £000	2008 Equipment £000	2007 Land & Buildings £000	2007 Equipment £000
Leases Expiring:				
Within One Year	–	180	–	–
Between Two and Five Years	80	–	80	352
Over Five Years	39	–	39	–
	<u>119</u>	<u>180</u>	<u>119</u>	<u>352</u>

The University has no finance lease commitments.

Note 31 Post Balance Sheet Events

There are no post balance sheet events.

Note 32 Amounts Disbursed as Agent

	Consolidated & University	
Access to Learning Fund	2007/08 £000	2006/07 £000
Income		
HEFCE Grants	372	417
Interest	6	4
	<u>378</u>	<u>421</u>
Expenditure		
Expenditure in Relation to Eligible Students	373	416
Audit Fees	2	1
	<u>375</u>	<u>417</u>
Balance at 31 July	<u>3</u>	<u>4</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.

Training and Development Agency for Schools: Training Bursaries

	2007/08 £000	2006/07 £000
Cash Received	2,107	2,159
Bursaries Paid	1,958	2,059
Administrative Costs and Training Grant	34	35
VAT on Administrative Costs	6	6
	<u>1,998</u>	<u>2,100</u>
Repayable to TDA	<u>109</u>	<u>59</u>

Cash received (other than income towards administrative costs and training grant) and bursaries paid are excluded from the Income and Expenditure Account.

Note 33 Related Party Transactions

Due to the nature of the University's operations and the 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'.

Notes to the Financial Statements (continued)

Note 34 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 NHS Pension Scheme. This is a defined benefit scheme.

The University's contribution to the various schemes in respect of its own staff, in the years 2007/08 and 2006/07 were:

	2007/08	2006/07
	£000	£000
Universities Superannuation Scheme (USS)	9,420	8,218
University of Leicester Pension and Assurance Scheme (PAS)	2,994	3,559
University of Leicester Stakeholder Scheme	244	204
NHS Pension Scheme	994	918
	<u>13,652</u>	<u>12,899</u>

Universities Superannuation Scheme (USS)

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

Because of the mutual nature of the Scheme, the University is unable to identify its share of the underlying assets and liabilities of the Scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement Benefits', accounts for the Scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the Scheme in respect of the accounting period.

The latest 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.

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 funding level of the Scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the Scheme's funding level is due to a combination of the volatility of the investment returns on the Scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the Scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (i.e. the valuation rate of interest). On the FRS17 basis, using an AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

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

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

Notes to the Financial Statements (continued)

Note 34 Pension Schemes (continued)

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 £9,420,000 (2007: £8,218,000). This includes £781,000 (2007: £776,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

Leicester Pension and Assurance Scheme (PAS)

The University of Leicester Pension and Assurance Scheme is a defined benefit scheme and was closed to new members on 31 July 2003. The Scheme was established with effect from 23 July 1962 to provide retirement and death benefits for support staff of the University of Leicester and for certain employees of the University of Leicester Students' Union. The Scheme is governed by its Fifth Definitive Trust deed and Scheme rules of 25 June 1999. Up to 5 April 2006, the Scheme was approved by HMRC as an exempt approved scheme under the provisions of Chapter 1 Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006, the Scheme became a "registered pension scheme" for tax purposes. Members are currently contracted out of the State Second Pension.

The contribution rates in place for the financial year 2007/08 were employer 28.7% of pensionable earnings and employee 6.35% of pensionable earnings.

The Schemes most recent actuarial valuation was undertaken on 1 August 2007, which was undertaken by Mr Lalji Patel of Gissings Consultancy Services Limited.

The assumptions and other data used in the 1 August 2007 valuation and the results are as follows:

Date of latest actuarial valuation	1 August 2007
Actuarial method	Projected Unit
Mortality	Average of medium and long cohort projections
Investment returns per annum	5.4 – 7.4%
Pension increases per annum	3.3%
Salary scale increases per annum	4.3%
Market value of assets	£87.589m
Liabilities	£97.867m
Shortfall	£10.166m
Proportion of members' accrued benefits covered by the actuarial value of the assets	90%

Following the actuarial valuation undertaken and in line with the Schemes' Statement of Funding Principles, the University has agreed that the shortfall in the assets of £10.166 million should be removed as follows:-

- For the year 1 August 2007 to 31 July 2008 by an employer contribution of 6.03% of pensionable earnings, contained within the employer rate applied of 28.7%.
- For the period 1 August 2008 to 31 July 2020, an employer contribution of 6.03% of pensionable earnings, contained within the employer rate applied of 28.7%, plus an annual lump sum of £707,000 payable at the end of the Scheme year.

The employer contribution rate to finance future Scheme benefits is 22.67% of pensionable earnings. This rate includes an allowance of 2.3% for expenses but excludes the costs of the Pension Protection Fund Levy which the University has agreed to fund directly. The University also pays the cost of insurance premiums for insuring death in service benefits directly. The employee contribution rate is to remain at 6.35% of pensionable earnings which is the same rate as USS and it is the University's intention to keep the PAS employee rate in line with that required for USS.

The FRS17 valuation updated the actuarial valuation undertaken at 1 August 2007 to a 31 July 2008 basis to allow for the following:-

- changes in actuarial assumptions
- changes in Scheme membership
- the cost of additional accrual
- cashflows including benefits paid
- change in level and market value of investments

The assumptions used by the actuary in the FRS17 valuation are:

	2008	2007	2006
Rate of increase in salaries	4.75%	4.25%	4.25%
Rate of increase in pensions in payment:			
Post 5.4.88 GMPs	3.00%	3.00%	3.00%
Non-GMPs	3.75%	3.25%	3.00%
Discount rate	6.50%	5.70%	5.25%
Inflation assumption	3.75%	3.25%	3.00%
Expected return on plan assets at 31 July	7.00%	6.90%	5.25%
Number of employees opting for early retirement	11	6	11

Assumed life expectations on retirement at age 65:

	2008	2008
Current Pensioners	Males 21.3 years	Females 24.1 years
Active and Deferreds	Males 22 years	Females 24.8 years
Future Pensioners	Males 22 years	Females 24.8 years

Scheme Assets

The assets in the Scheme and the expected long term rates of return were:

	Rate of return expected at 31 July 2008	Value at 31 July 2008 £000	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
Equities	7.40%	50,533	7.50%	56,876	7.00%	53,569
Bonds	6.50%	31,983	5.70%	30,681	5.25%	24,422
Cash	4.90%	52	5.00%	–	4.75%	244
Insured Assets	–	110	–	–	–	–
Net Current Assets	–	65	–	32	–	4
		82,743		87,589		78,239

Notes to the Financial Statements (continued)

Note 34 Pension Schemes (continued)

	2008	2007
	£000	£000
Opening Fair Value of Asset Plans	87,589	78,239
Expected Return on Assets	6,063	5,077
Contributions by Members	668	774
Contributions by Employer	3,150	3,567
Actuarial (Losses) / Gains	(12,168)	2,382
Estimated Benefits Paid	(2,559)	(2,450)
Total	82,743	87,589

The Group expects to contribute £3,757,000 to its defined benefit pension plan from 1 August 2008 - 31 July 2009.

Net Pension Liability

The following amounts at 31 July 2008 were measured in accordance with the requirements of FRS 17:

	2008	2007	2006
	£000	£000	£000
Fair value of employer assets	82,743	87,589	78,239
Present value of Scheme liabilities	(112,413)	(116,023)	(109,059)
Net pension liability	(29,670)	(28,434)	(30,820)

Present Value of the Defined Benefit Plan

	2008	2007
	£000	£000
Opening Defined Benefit Obligation	116,023	109,059
Current Service Cost	2,494	2,259
Interest Cost	6,630	5,740
Contributions by Members	668	774
Actuarial (Losses) / Gains	(10,843)	1,782
Estimated Benefits Paid	(2,559)	(3,591)
Closing Defined Benefit Obligation	112,413	116,023

Analysis of amounts charged to Income and Expenditure Account:

	2007/08	2006/07
	£000	£000
Current service cost	(2,494)	(2,259)
Financing:		
- expected return on Scheme assets	6,063	5,077
- interest on expected Scheme liabilities	(6,630)	(5,740)
	<u>(567)</u>	<u>(663)</u>
Net Income and Expenditure Account Cost	(3,061)	(2,922)
	<u><u> </u></u>	<u><u> </u></u>

	2007/08	2006/07
	£000	£000
Actual return on plan assets	(6,105)	7,459
	<u><u> </u></u>	<u><u> </u></u>

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:	2007/08	2006/07
	£000	£000
Actual return less expected return on Scheme assets	(12,168)	2,382
Experience gains and losses arising on Scheme liabilities	1,848	(388)
Changes in assumptions underlying the present value of Scheme liabilities	8,995	(212)
Total actuarial (loss) / gain recognised	(1,325)	1,782
	<u><u> </u></u>	<u><u> </u></u>

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

	2008	2007
	£000	£000
Deficit on Scheme at 1 August	(28,434)	(30,820)
Movement in year:		
- current service cost	(2,494)	(2,259)
- contributions	3,150	3,526
- past service costs	-	-
- other finance loss	(567)	(663)
- actuarial (loss) / gain	(1,325)	1,782
Deficit on Scheme at 31 July	(29,670)	(28,434)
	<u><u> </u></u>	<u><u> </u></u>

Notes to the Financial Statements (continued)

Note 34 Pension Schemes (continued)

The gains and losses for the year ended 31 July 2008 were as follows:

	2008	2007	2006	2005	2004
Difference between the expected and actual return on Scheme assets:					
Amount (£000)	(12,168)	2,382	3,182	8,669	(469)
Percentage of Scheme assets	(14.7)%	2.7%	4.1%	12.7%	(0.9)%
Experience gains and (losses) on Scheme liabilities:					
Amount (£000)	1,848	(388)	(4,439)	24	(615)
Percentage of the present value of Scheme liabilities	1.6%	(0.3)%	(4.1)%	0.0%	(0.8)%
Total amount recognised in the statement of total recognised gains and (losses):					
Amount (£000)	(1,325)	1,782	(4,130)	(5,233)	1,723
Percentage of the present value of Scheme liabilities	(1.2)%	1.5%	(3.8)%	(5.5)%	2.3%

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 1 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 180 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 advisers 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% Friends Provident Property Fund and 5% Friends Provident Cash Fund. 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 the default investment strategy provides for members' existing funds and ongoing contributions to be phased into the Annuity Protector Fund (gilts) and a Cash Fund through a balanced lifestyle programme resulting in all funds being transferred to gilts and cash at the point of retirement.

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

NHS Scheme

The University has 106 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 pensionable earnings to the Scheme. Employees contribute between 5% and 8.5% of pensionable earnings to the Scheme. The employees contribution rate is based on how much the members earn in a year.

Note 35 Prior Year Adjustment

Following revised wording to the definition of endowment funds and in respect of deferred capital grants for land within the 2007 Statement of Recommended Practice (SORP), two prior year adjustments should be made.

Some funds, which had previously been held as endowed funds do not meet the requirement of the definitions of endowed funds within the new SORP. The balance of £333,000 held at 1 August 2006 has therefore been released to the General Reserve and reduced the value of Endowed funds. The associated income of £43,000 for the balances transferred to the General Reserve have been reflected within the Income and Expenditure Account for 2006/07.

The opening balance for deferred capital grants has been restated following the adoption of the new accounting policy regarding grants in respect of land stated in the new SORP. The balance of £761,000 held at 1 August 2006 has been transferred to the General Reserve. All future receipts of grant for land will be shown as donations in the Income and Expenditure Account.

The prior year effects of these changes can be summarised as: -

	As previously stated £000	Prior year adjustment £000	As restated £000
Endowed funds as at 1 August 2006 (<i>note 20</i>)	5,716	(333)	5,383
Deficit for the year transferred to accumulated income in endowed funds	(94)	16	(78)
Appreciation of endowment asset investments	324	(27)	297
Deferred Capital Grants (<i>note 19</i>)	75,880	(761)	75,119
General reserve including pension reserve (<i>note 21</i>)	5,573	1,136	6,709

Five Year Summary Accounts

Income and Expenditure Account

	2003/04	2004/05	2005/06	Restated 2006/07	2007/08
	£000	£000	£000	£000	£000
Income					
Funding Body Grants	45,710	52,349	57,432	62,227	66,107
Tuition Fees and Education Contracts	39,274	40,485	40,451	45,938	57,580
Research Grants and Contracts	36,233	34,969	35,856	37,626	41,513
Other Income	39,181	38,561	38,809	38,019	38,180
Endowment Income and Interest	1,050	1,092	1,328	1,712	1,932
Profit on Disposal of Assets	386	2,193	779	6,307	–
Total Income	<u>161,834</u>	<u>169,649</u>	<u>174,655</u>	<u>191,829</u>	<u>205,312</u>
Expenditure					
Staff Costs	98,867	102,268	106,116	110,690	119,473
Other Operating Expenses	57,320	59,052	63,949	64,640	74,585
Depreciation	2,996	4,942	4,891	6,667	6,996
Interest and Other Finance Costs	790	1,611	1,631	2,660	2,761
Total Expenditure	<u>159,973</u>	<u>167,873</u>	<u>176,587</u>	<u>184,657</u>	<u>203,815</u>
Transfer to Endowment Funds	28	25	48	78	147
Surplus/(Deficit) for the Year	<u>1,833</u>	<u>1,751</u>	<u>(1,980)</u>	<u>7,094</u>	<u>1,350</u>

Balance sheet

Fixed Assets	86,970	98,675	126,734	145,336	154,973
Endowment Asset Investments	4,011	4,958	5,716	5,842	5,427
Net Current Assets / (Liabilities)	2,945	(3,438)	(23,697)	4,457	1,182
Creditors: Amounts Due After One Year	(4,840)	(4,665)	(4,474)	(36,323)	(35,014)
Provisions for Liabilities and Charges	(738)	(158)	(375)	(479)	(639)
Pension Liability	–	(27,406)	(30,820)	(28,434)	(29,670)
Total Net Assets	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>	<u>90,399</u>	<u>96,259</u>
Represented By:					
Deferred Capital Grants	55,869	60,158	70,628	77,848	84,098
Endowments	4,011	4,958	5,716	5,842	5,427
General Reserve	28,468	30,256	27,560	35,143	36,404
Pension Reserve	–	(27,406)	(30,820)	(28,434)	(29,670)
Total Funds	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>	<u>90,399</u>	<u>96,259</u>

Financial Statistics

Sources of Income

% of Total Income	Restated				
	2003/04	2004/05	2005/06	2006/07	2007/08
Grants from Funding Bodies (HEFCE and TDA)	28.2%	30.8%	32.9%	32.4%	32.2%
Tuition Fees and Education Contracts	24.3%	23.9%	23.2%	23.9%	28.0%
Research Grants and Contracts	22.4%	20.6%	20.5%	19.6%	20.2%
Residences, Catering and Conferences	9.6%	8.9%	8.3%	7.9%	8.3%
Other Income	15.5%	15.8%	15.1%	16.2%	11.3%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure					
Staff Costs	61.8%	60.9%	60.1%	60.0%	58.6%
Other Operating Expenses	35.8%	35.2%	36.2%	35.0%	36.6%
Depreciation	1.9%	2.9%	2.8%	3.6%	3.4%
Interest Payable	0.5%	1.0%	0.9%	1.4%	1.4%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus / (Deficit) for the Year as a % of Total Income	1.1%	1.0%	(1.1)%	3.7%	0.7%

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>	65	66	57	69	65
Days Ratio of Net Current Assets / (Liabilities) to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i>	7	(7)	(49)	9	2
% Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i>	17	15	16	103	96

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>	41	35	32	58	52
Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i>	1.1	0.9	0.6	1.1	1.0
Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i>	63	59	63	58	56



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