



University of
Leicester

Financial Statements

2010 - 2011

Elite without being elitist

THE Awards Winner
2007, 2008, 2009, 2010

www.le.ac.uk

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Treasurer's Report

FOR THE YEAR ENDED 31 JULY 2011

Format of the Financial Statements

The University was established by Royal Charter in 1957 and acts as an autonomous, self governing institution. The University has exempt charitable status and is regulated by the Higher Education Funding Council for England (HEFCE).

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

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 within an inclusive academic culture. The vision for the University is:

- We will consolidate our position as the most inclusive of Britain's top 20 leading universities.
- We will become 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 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.

More detail on the University's vision is set out in the Strategic Vision to 2015 document, available on the University website.

Highlights of the Year

This has been another very successful year for the University.

Financially, the success appeared as a good surplus, £9.160 million (3.5% of income), and well ahead of the budget of £5.944 million. Academically, there was success too. The University has maintained its ranking as a top university in the UK this year, ranking 14th in the Times Higher Table of tables, 17th in the UK in the Times Good University Guide 2011, and 17th in the Guardian University Guide. The University is the only top 20 university to meet the government benchmarks for inclusivity for students from state schools and lower socio-economic groups.

The 2011 National Student Survey ranked Leicester top after Oxbridge for student satisfaction. The research conducted by the

University has the strongest impact of any Midlands university measured by citations per academic. Our citation levels place us amongst the top 1% of universities in the world and are the 7th highest in England (QS World University Rankings 2011).

Student recruitment remains strong, with increases in full-time overseas students at both undergraduate and postgraduate level. The recruitment of overseas students has been supported by increases in activity by the University's English Language Teaching Unit and the International Study Centre, who provide a foundation year. Overall the University is well placed to meet the changing environment for Home/EU undergraduate recruitment, under the government's reform agenda. The distribution of students in 2010/11 and 2009/10 was:

	2010/11	2009/10
Undergraduate	11,217	10,946
Postgraduate	11,567	11,857
	<u>22,784</u>	<u>22,803</u>
Full-time	12,598	12,230
Part-time/distance learning	9,641	9,818
Other	545	755
	<u>22,784</u>	<u>22,803</u>

The University has an ambitious £1 billion investment plan for the University's estate. The programme is a long-term vision which would allow the capacity of the campus to increase by 100,000 square metres and provide increased capacity to allow student numbers to grow to 25,000.

The redeveloped Percy Gee Building, which houses the Students' Union, opened at the start of the academic year. The building transformation has significantly improved student facilities on the main campus. Work continues on the new Hall of Residence at the Nixon Court site, due to complete for 2011/12, and on major improvements to the sports facilities at Manor Road.

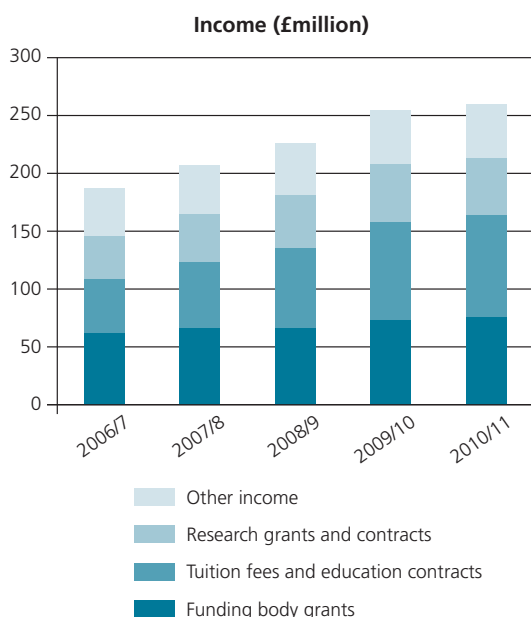
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Income and Expenditure Account

Total income rose by 1.9% to £260.686 million, while total expenditure increased by 5.1% to £251.753 million.

The University's income comes from a number of sources, as shown in the chart below:



The operating surplus was £8.933 million, compared to £16.157 million in 2009/10. The total surplus for the year was £9.160 million (3.5% of income), after the transfer from endowed funds, which compares to £16.174 million in 2009/10 (6.3% of income). The budget for the year was for a total surplus of £5.944 million, so the final result was £3.216 million ahead, despite extra budgets being awarded for selected developments during the year.

Tuition fee income reached the highest ever level for the University at £89.386 million, 4.9% higher than in 2009/10. The majority of the increase arose from full-time campus-based home/EU students who accounted for 35.4% of tuition fee income. Income from part-time and distance learning students increased by 1% to £21.740 million. Grants from funding bodies were maintained at slightly above the previous year's level, totalling £74.840 million, despite government cutbacks to both the teaching and research grant in year.

After a strong year of growth last year, income from research grants and contracts dropped by 2.5% to £48.732 million. It is pleasing to note significant success in gaining new grant awards in the year, despite constraints in the budgets of key funders. The University saw a sharp increase in the value of

grants awarded by the European Commission, achieving the highest levels ever, and secured two major Cancer Research UK Programme Grants which will run over the next five years. Income from research grants and contracts is expected to increase in future years.

Expenditure of £251.753 million remained within the budget for the year, and included savings on staff costs.

The surplus generated is an excellent result for the University. The cash generated will help in the future development of the University, especially by investing in the academic activities and the University estate to prepare for the challenges ahead.

Balance Sheet as at 31 July 2011

Net assets have increased by £29.142 million to reach £151.799 million as at 31 July 2011.

Cash and short-term investments totalled £44.344 million as at 31 July 2011, slightly lower than the previous year.

Fixed assets have increased by £31.159 million in the year to reach £205.246 million. This increase reflects total capital expenditure of £39.363 million and depreciation of £8.235 million. Capital grants of £12.176 million were received in the year.

The main capital items in the year were in respect of ongoing work on the new Hall of Residence at Nixon Court and the development of a new research facility for the College of Medicine, Biological Sciences and Psychology.

An additional loan facility was taken out in the year to fund the capital programme. Until the loan is fully drawn down this facility is on a short term revolving contract. The drawn down balance on this facility of £11.723 million is the principal reason for the increase in short-term creditors from £60.611 million to £78.178 million at the year end.

Net current assets reduced from £9.742 million at 31 July 2010 to net current liabilities of £7.055 million as at 31 July 2011. This is mainly due to the treatment of the new loan.

The pension liability for the Pension and Assurance Scheme significantly reduced by 36% to £21.944 million, reflecting changes in actuarial assumptions.

Cash Flow for the Year to 31 July 2011

There was a net cash inflow of £18.878 million from operating activities during the year, compared to £27.181 million in the previous year. The other main features of the cash flow were the capital expenditure and new loans described above.

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Pension Schemes

The University of Leicester Pension and Assurance Scheme is included in the accounts on the basis of its FRS 17 valuation undertaken at 31 July 2011. This shows that the Scheme had assets of £105.946 million at 31 July 2011, liabilities of £127.890 million and a resultant deficit of £21.944 million. The value of the assets has increased during the year by £11.225 million reflecting better than expected investment returns. The present value of the liabilities has decreased from last year's level by £1.187 million. This results partly from the knock-on impact to the scheme of the UK Government switch from the Retail Prices Index to the Consumer Prices Index to measure statutory minimum pension increases. The resultant deficit at 31 July 2011 is therefore £12.412 million lower than the level reported at 31 July 2010.

The latest triennial actuarial valuation of the University of Leicester Pension and Assurance Scheme was completed as at 1 August 2010. This showed that the Scheme's assets fell short of the value of its technical provisions, being a deficit of £28.805 million. This is equivalent to a 77% funding level, a deterioration on the 2007 valuation which showed a 90% level of funding. The University has agreed to meet the shortfall by continuing to pay the current level of employer contribution of 28.7% and increasing the annual recovery plan payment from £707,000 to £1.5 million each year beginning in 2011/12 and ending in 2026/27. In addition, the University made an additional special payment of £1 million in 2010/11.

The USS triennial actuarial valuation was undertaken as at 31 March 2008. At the valuation date the value of Scheme assets was £28,843 million, and the value of the technical provisions was £28,135 million, indicating a surplus in the Scheme. Details of the next formal triennial actuarial valuation as at 31 March 2011 are not yet available, however the actuary estimates that the funding level has fallen to a deficit of circa £700 million. The employer contribution rates have been maintained at 16% and changes to the new member benefits from 1 October 2011 are expected to have a positive impact on future funding levels.

Treasury Management

Through the Treasury Management Sub-Committee the University sets the policy for and manages its portfolio of investment assets and short-term investments.

For the portfolio of investments the Sub-Committee aims to balance the risk and potential returns. Investments in equities, fixed interest stocks and property are managed by external investment managers. In addition the University has an in-house Treasury team who manage the working capital of the University and make a number of bank and building society deposits in accordance with the Treasury Management Policy. This policy determines the limits in terms of the credit ratings of institutions used for investments and on the sums placed with any one provider.

The level of endowment and interest income in the year was £725,000 compared to £657,000 in 2009/10.

At 31 July 2011 the University had £44.215 million of borrowing. The University has five loans repayable on different terms. The key features of the loans are:

- A loan from NatWest Bank with an outstanding balance of £3.521 million. This loan is repayable in instalments over periods to 2019, with interest payable at a fixed rate of 9.753%.
- Two ongoing loans from Barclays Bank, one repayable in instalments over periods to 2018 with an outstanding balance of £7.519 million and one repayable in instalments over periods to 2031 with an outstanding balance of £20.652 million. The rates of interest on both loans are hedged, with half of the balance capped at 5.5% and the remainder covered by swap arrangements of approximately 4.8%. A further short-term swap is in place at 2.97%, fixing the average rate paid on each loan at approximately 4.6%.
- An interest free loan provided through the HEFCE and Salix Revolving Green Fund Scheme with a balance of £800,000. The loan is used to fund initiatives to reduce the University's carbon emissions, and only becomes repayable once there are no longer new schemes to reinvest the savings generated by previous schemes. At this point it is not known when this loan will be repaid.
- A new loan from Barclays with an outstanding balance of £11.723 million. This loan facility is to fund capital schemes and the intention is to draw down the full £20 million facility over the next year. The loan is currently based on a monthly revolving facility, on full draw down it will convert to a long-term loan. A long-term swap is in place at 4.165% to 2036 to fix the long-term interest rate payable.

Financial Strategy

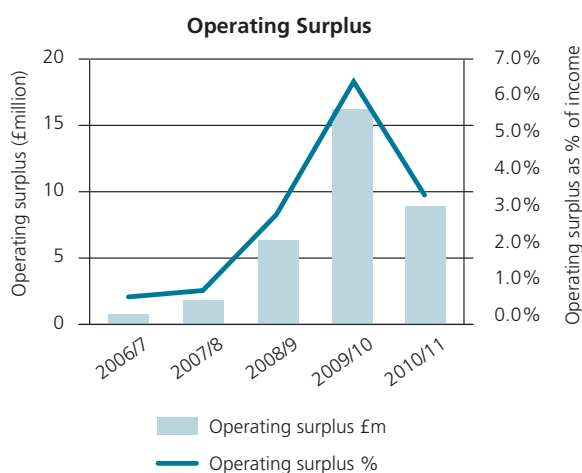
Through the financial strategy the University aims to achieve sustainable overall finances, while providing continued funding for the ongoing capital programme.

Within the financial strategy there are two key performance indicators. The first is to achieve a minimum operating surplus, measured as the surplus before exceptional items such as asset disposals and tax as a percentage of total income. Given the tighter public funding for both revenue and capital, and the timing of these cuts in relation to the ability to generate additional income, Council approved a change to the financial strategy during the year. This moves away from the previous strategy of a minimum 2% operating surplus to now reflect the tighter demands of 2011/12 and build additional surplus in later years to fund capital investment. The target operating surplus for

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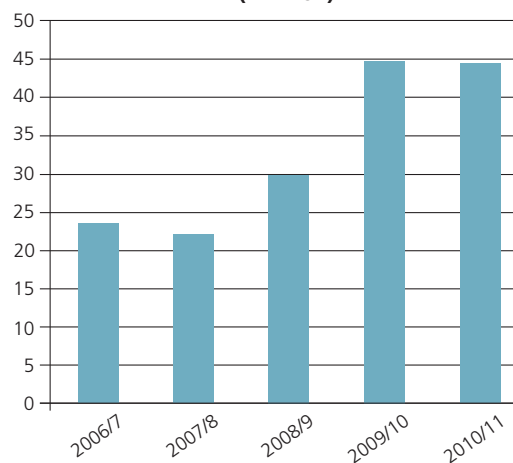
the most difficult year of 2011/12 is at least 1.7%, rising to 4% by 2014/15. The operating surplus results from recent years are shown in the chart below.



The University has achieved the minimum surplus target since 2008/9, and by a significant margin in both 2009/10 (6.3%) and the current year (3.4%). The years 2006/7 and 2007/8 were acknowledged as transitional years when the financial strategy was established. In these years not all Home/EU undergraduates were paying variable fees and it was not expected that it would be possible to achieve the 2% target until the 2008/9 year. The second key performance indicator is the level of short-term investments and cash. The aim within the financial strategy is to hold a prudent level of cash and short-term investments as measured at the year end. The minimum acceptable level is broadly measured as one-month's payroll costs.

The level of short-term investments and cash is shown in the chart below.

Short-term Investments and Cash Balances (£million)



In all years the target has been exceeded. The balance of £44.344 million as at 31 July 2011 is satisfactory and is required to fund working cash requirements and the planned investment in fixed assets over the University's forecast period to 2014/15.

Future Financial Outlook

The Financial Forecasts to 2014/15 and budget for 2011/12 approved by Council in July 2011 included some challenging targets for the growth of both income and maintenance of a surplus for the University.

Over the past year the financial position of the University has been strengthened by:

- the continued strong student recruitment in 2010;
- healthy application rates for 2011;
- the Browne review proposed higher tuition fees for Home/EU undergraduate students, a proposal that has been adopted as government policy;
- increased profitability of the trading areas.

However, there has been increased financial pressure from a number of factors:

- reductions in HEFCE grant. A number of reductions have already been announced and the impact of the government's proposed implementation plans remain highly uncertain;

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- distance learning recruitment has been difficult, particularly from areas subject to geo-political issues in the year.

The 2011/12 financial year has a budget for income to grow to £267.755 million and for an operating surplus of £4.443 million. The budgeted surplus is lower than the previous two years, but is in line with the revised financial strategy. The challenge for 2011/12 is to achieve budget in the year where government funding cuts are in place, but the higher fee regime consequent on the Browne review does not yet apply. However early indications are that student recruitment is on track and costs are well controlled.

Key Risks and Opportunities

The most significant risks in respect of the University's financial position and the measures in place to control them are:

- That there is a further reduction in HEFCE grant and/or that the government will further restrict funding for new Home/EU undergraduate students from 2012/13:

The budget process included specific contingencies to cover funding/volume reductions on new intakes of Home/EU students on the higher £9,000 fee and consideration of reduced funding scenarios. The University is actively participating in the government consultation process for funding changes.

- That Home/EU undergraduate recruitment will falter from 2012/13 with the introduction of higher fees:

The University has a good track record in recruitment and has continued to see a high level of interest in 2012/13 courses. It is important to ensure the interest level is converted into good quality applications over the coming months.

- That campus-based overseas student fee income will not grow as planned:

The University was very successful in campus-based student recruitment in recent years, with excellent recruitment in many academic departments.

- That the anticipated increase in income and contribution from research grants and contracts is not achieved:

The budget shows an increase in research income and contribution over the planning period. The Senior Management Team and Research Committee will continue to monitor progress against the targets.

- That the rise in distance learning income will not be as high as expected:

The University will continue to monitor distance learning income closely and continue to review its overseas market positioning given the recent impact of geo-political uncertainties.

- That the further Value for Money savings are not achieved:

The University now has a record of delivering savings where required and the additional target will be pursued by the University in 2011/12.

- A rise in interest rates increasing the costs of borrowings now in place:

An interest rate hedging strategy has been put in place by Finance Committee, which is proving very beneficial. The same will be done for any new loans.

There are also some upside possibilities which could favourably affect the financial position of the University:

- Better achievement than estimated on overseas student intake.
- Potential to increase some post graduate fees.
- Achievement of significant fundraising towards the capital building programme by the development appeal.
- Significant increases in research funding at the end of the planning period following a successful outcome of the Research Excellence Framework 2014.

Conclusion

The University has had a successful year in many ways, including the financial results. Despite the challenging funding climate now ahead, the University is determined to continue the progress made over recent years. The University will continue to invest heavily in its activities and facilities and aims to stay on course to meet the targets set within the financial strategy, which is designed to create cash for reinvestment in the University's development.

I must end by thanking the staff of the University for their skill and commitment which has resulted in a strong performance both academically and financially. This sound base provides confidence that the University will continue to progress and prosper in the new challenging environment for higher education.

Dr B.E. Towle
Treasurer
21 November 2011

Public Benefit Statement

FOR THE YEAR ENDED 31 JULY 2011

The University was established by Royal Charter in 1957 and acts as an autonomous, self governing institution. The University has exempt charitable status and is regulated by the Higher Education Funding Council for England (HEFCE).

The members of Council serve as trustees, and in setting the University's mission and strategy Council have due regard to the Charity Commission's public benefit guidance, and the guidance issued by HEFCE.

The two general principles of the guidance are:

1. There must be an identifiable benefit or benefits.
2. Benefit must be to the public, or a section of the public.

The University's public benefit is related to the core aims of the University, the values expressed by the University and through the presence and positive impact the University has on the local community, regionally, nationally and internationally.

The University's Charter sets the overall objectives of the University to provide "a University within Our City and County of Leicester for the Advancement of Knowledge, the Diffusion and Extension of Arts, Sciences and Learning, the Provision of Liberal, Professional and Technological Education". This objective is articulated through the University Mission and Strategy as outlined above, and is summarised by the University values approach of being "elite without being elitist".

The University is proud to be elite but it is not elitist. It is equally as proud to be a university that is inclusive and accessible in its academic culture. The University has achieved success through its distinctive work which is characterised by the following approach:

- an inclusive and accessible culture;
- a personal, supportive experience for those who use our services;
- a commitment to high quality, innovation and rigorous academic standards;
- a belief that teaching and research are synergistic.

The University's public benefit is demonstrated through high quality research and teaching and by being inclusive and accessible.

High quality research and teaching

The quality of the University's teaching is high and, amongst mainstream universities, the National Student Survey shows that our students are some of the most satisfied in England. In 2011 89% of full-time students were satisfied with their programme.

The University's high standards in teaching are affirmed by the most recent institutional audit completed by the Quality Assurance Agency for Higher Education which gave confidence (the highest category of outcome) in the soundness of the management of academic standards.

The research conducted by the University has the strongest impact of any Midlands university measured by citations per academic (QS World University Rankings 2010). Citation levels place the University amongst the top 1% of universities in the world and the 6th highest in the UK.

The University's 2010/11 HEFCE research funding is the 20th highest of universities funded by HEFCE.

The University has one of the highest proportions of research active staff in the UK, with approximately 93% of staff submitted for the national 2008 Research Assessment Exercise (RAE). Of these, 87% of research activity was deemed by the RAE to be internationally significant research.

The University is also home to the department with the greatest concentration of world class research of any department or of any discipline in the UK –the School of Museum Studies.

Unless contractual arrangements place restrictions on publication, the results of the University's research are placed in the public domain through journals, books or online.

The University's Leicester Exchanges initiative uses online discussions and live public events to disseminate the latest thinking from the University. Aimed at opinion leaders, policy makers and the general public it is a new way to make progress on some key issues that shape society. Live debates since the launch have included:-

- should we punish or reform offenders?
- comprehensive school education – lost ideal, policy mistake or model for the future?

Inclusive and accessible

The University is the most socially inclusive of Britain's top 20 leading universities and the only one to achieve official government benchmarks for inclusivity for both state school students and students from lower socio-economic groups (as detailed in the latest HESA Widening Participation Performance Indicators for young undergraduate entrants).

Public Benefit Statement

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Outreach into schools and colleges includes substantial work targeted at the most disadvantaged students in the most disadvantaged schools, and includes university experience days, subject based master-classes and summer schools. Placements are offered for current students to work in these schools – supporting teaching and acting as role models for the students.

The University charges tuition fees to students, and the outreach work of the University is complemented by a targeted bursary scheme for students from poorer backgrounds and a clear and transparent policy of fair admissions, set out in our Code of Practice for Admissions.

Tuition fees for full time undergraduate and PGCE courses are regulated by the Office for Fair Access (OFFA). Under the agreement that the University has with OFFA, UK undergraduate students are eligible for University bursaries of non-repayable cash awards. The amount receivable by students in 2010/11 depended on the following criteria:

- residual household income;
- whether the student qualified for state support;
- whether the student paid the full tuition fee;
- whether the student was spending any time away from the University on placement or studying abroad.

The cost of these bursaries in 2010/11 was £3.2 million.

Bursaries and scholarships are available for other students for the study of postgraduate courses based on academic merit.

The University also engages with the local community in a wide variety of other ways including public lectures, the University's arts centre (Embrace Arts), the Literary Leicester Festival, the annual international sculpture exhibition and the University's Botanic Gardens. Many of these facilities include free access for the public and are promoted as part of the University's outreach programme.

Corporate Governance

FOR THE YEAR ENDED 31 JULY 2011

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 affairs in accordance with the Governance Code of Practice for Higher Education Bodies in the UK, issued by the Committee of University Chairs (CUC), and 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 Council normally meets four times a year. The role of the Chair 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 and Ordinances of the University, by its Statement of Primary Responsibilities, which is published on the University's website, and under the Financial Memorandum with the Higher Education Funding Council for England. The Council holds to itself responsibility for the ongoing strategic objectives of the University, including approval of major new developments, and for monitoring progress against these. Council receives regular reports from its Committees on the day to day operations of the University and of its subsidiary companies. Council also receives an annual summary assessment of the University's performance against a range of key performance indicators, and these assessments are published on the University's website.

In the financial year 2010/11 the principal Committees of Council included the Strategy, Policy and Resources Committee, the Finance Committee, the Staffing Policy Committee, two Remuneration Committees and an Audit Committee, all formally constituted with terms of reference and all including members drawn from the lay membership of Council.

The Strategy, Policy and Resources Committee was responsible for recommending to Council the University's annual Financial Statements and annual budgets, whilst the Finance Committee was responsible to Council for the overall monitoring of the University's financial health and advising on the overall University financial strategy. The Finance Committee also monitors the financial resources that are allocated to the administrative and other support service areas.

The two 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 co-opted for their specific expertise. The Committee meets privately with the internal and external auditors for independent discussions as necessary. Under the Audit Committee's Terms of Reference no member of the Committee may also be a member of the Finance Committee unless Council makes a formal decision to allow one Audit Committee member to sit on both.

During 2010/11 the University completed an external review of the effectiveness of Council, having volunteered to participate in a CUC/Leadership Foundation pilot project to develop a new approach to testing governing body effectiveness in higher education. The full report is available on the University's website. The main findings of the review confirmed Council's strength in its monitoring and assurance function, but also proposed a number of ways in which Council could further develop its strategic role. Council has agreed detailed responses to the full set of recommendations and these are in the process of being implemented.

Also completed during 2010/11, with external advice, was a follow-up review to assess the impact of the University's new academic structure and the related changes to the remit and constitution of its senior committees that were introduced in 2009/10. As a result of this review some immediate refinements were agreed and implemented, and more adjustments are expected to be made during 2011/12.

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 provides reasonable but not absolute assurance against material misstatement or loss. The Council has approved a comprehensive

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risk management policy for the University, which is reviewed annually and updated as requested.

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. The senior management team and the Audit Committee also receive regular reports from the internal auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. Council receives regular reports on Risk Management and Internal Control from the Vice-Chancellor and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. During the year Council approved regular amendments to the Corporate Strategic Risk Register 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 2011 Council received a report from senior management, originally prepared for the Audit Committee, advising that Council would be able to issue a statement of full internal control. The Audit Committee had endorsed this conclusion on the basis of a governance and risk management report from the internal auditors and other reports it had received from the auditors and 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 2011 and up to the date of approval of the annual report and financial statements.

During the last year there have been no major events necessitating the review of risk control and reporting procedures.

Responsibilities of the Council of the University of Leicester

FOR THE YEAR ENDED 31 JULY 2011

In accordance with the University's Statutes and Ordinances, 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 Statutes and Ordinances, 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 accountable officer (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 31 July 2015, 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, and income for other specific purposes, 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;
- 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

Responsibilities of the Council of the University of Leicester

FOR THE YEAR ENDED 31 JULY 2011

controls and procedures, approved by the Finance 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, Chair of Council
21 November 2011

Members of Council

The Members of Council who served in the 2010/11 financial year were as follows:

Professor A. Abbott
Mr P. Ash
Professor R. Baker
Mr P. Bateman
Mr R. H. Bettles (Chair of Council)
His Hon. Judge D. Brunning (until 31 July 2011)
Professor Sir R. G. Burgess
Mr G. Dixon
Ms J. Dunne
Ms C. Fyfe (until 31 July 2011)
Professor C. Haselgrove
Ms F. Hussain (until 31 July 2011)
Mr D. M. James
Mr R. Kenyon
Dr D. Lockett
Mr A. M. Mamujee
Mr D. Moore
Mr P. Mulvihill
Professor E. Murphy
Mr A. Nutt
Dr N. Reed
Professor M. P. Thompson
Dr B. E. Towle
Professor D. Wynford-Thomas

New appointments since 1 August 2011:

Ms A. Hampton (from 1 August 2011)
Mr I. Johnson (from 1 August 2011)
Professor K. Schürer (from 1 August 2011)

Independent Auditor's Report to the Council of the University of Leicester

FOR THE YEAR ENDED 31 JULY 2011

We have audited the financial statements of the University of Leicester for the year ended 31 July 2011 which comprise the Statement of Principal Accounting Policies, the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated University Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Funds/ (Debt) and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the governing body in accordance with the financial memorandum effective August 2010. 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 as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and Auditor

As explained more fully in the Council's Responsibilities Statement, Council is responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the governing body; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group and the University's affairs as at 31 July 2011 and of its surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education.

Opinion on other matters prescribed by the Higher Education Funding Council for England Audit Code of Practice

In our opinion:

- in all material respects, income from the funding council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2011 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2011 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council.

Matter on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice requires us to report to you if, in our opinion:

- the Statement of Internal Control (included as part of the Corporate Governance Statement) is inconsistent with our knowledge of the University.

Deloitte LLP
Chartered Accountants and Statutory Auditor
Nottingham, UK

Statement of Principal Accounting Policies

FOR THE YEAR ENDED 31 JULY 2011

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.

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 31 July 2015, 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, being not less than 12 months from the date of signing these Financial Statements. For this reason, the Financial Statements continue to be prepared on the going concern basis.

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 2011. 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 fixed, current and endowment 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.

Income from trading activities, including residences, catering and conference services is recognised when the goods or services are supplied to the customers or the terms of the contract have been satisfied.

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:

1. Unrestricted permanent endowments are where the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University. Receipts where the capital amount cannot be spent are credited to unrestricted permanent endowments and only accumulated income is available to be transferred to general reserves.
2. Restricted permanent endowments are where the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective. Receipts where the capital amount cannot be spent are credited to restricted permanent endowments and only accumulated income is available to be transferred to general reserves as the related expenditure is incurred.
3. Restricted expendable endowments are where the donor has specified a particular objective other than the purchase of intangible or fixed assets, and the institution can convert the donated sum into income. These receipts are credited to endowment reserves and transferred to general reserves as the related expenditure is incurred.

Endowment Asset Investments are included in the Balance Sheet at market value, with changes taken to the Statement of Total Recognised Gains and Losses.

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

Statement of Principal Accounting Policies

FOR THE YEAR ENDED 31 JULY 2011

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' 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.

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. A small number of staff remain in other pension schemes.

The PAS is accounted for on the basis of FRS 17. 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 USS is a defined benefit scheme which is contracted out of the State Second Pension. The assets of the Scheme are held in a separate trustee-administered fund. 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 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 capitalised 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

Statement of Principal Accounting Policies

FOR THE YEAR ENDED 31 JULY 2011

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. New heritage assets acquired are included at valuation.

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 relevant 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 Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478-488 of the Corporation Tax Act 2010 (formerly enacted in Section 505 of the Income and Corporation 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 (with the exception of Leicester Academic Trading Services Limited which is VAT grouped with the University).

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 30.

Consolidated Income and Expenditure Account

FOR THE YEAR ENDED 31 JULY 2011

	Note	2010/11 £000	2009/10 £000
Income			
Funding Body Grants	1	74,840	74,810
Tuition Fees and Education Contracts	2	89,386	85,245
Research Grants and Contracts	3	48,732	49,968
Other Income	4	47,003	45,035
Endowment and Investment Income	5	725	657
Total Income		260,686	255,715
Expenditure			
Staff Costs	6	142,466	137,449
Other Operating Expenses		98,068	91,853
Depreciation	9	8,235	7,360
Interest and Other Finance Costs	7	2,984	2,896
Total Expenditure	8	251,753	239,558
Surplus Before Tax		8,933	16,157
Taxation		–	–
Surplus After Tax		8,933	16,157
Transfer from Accumulated Income in Endowment Funds	18	227	17
Surplus for the Year Retained Within General Reserves	19	9,160	16,174

- 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.
- There are no exceptional items in the financial years reported.

Consolidated Statement of Total Recognised Gains and Losses

FOR THE YEAR ENDED 31 JULY 2011

	Note	2010/11 £000	2009/10 £000
Surplus on Continuing Operations After Tax		8,933	16,157
Appreciation of Endowment Asset Investments	11	328	589
New Endowments	18	683	465
Actuarial Gain/(Loss) in Respect of Pension Scheme	32	11,865	(10,208)
Total Recognised Gains Relating to the Year		21,809	7,003

Reconciliation

	2010/11 £000	2009/10 £000
Opening Reserves and Endowments	30,171	23,168
Total Recognised Gains for the Year	21,809	7,003
Closing Reserves and Endowments	51,980	30,171

Balance Sheets

AS AT 31 JULY 2011

	Note	Consolidated		University	
		2011 £000	2010 £000	2011 £000	2010 £000
Fixed Assets					
Tangible Assets	9	205,146	174,018	205,146	174,018
Investments	10	100	69	100	69
		205,246	174,087	205,246	174,087
Endowment Asset Investments	11	6,826	6,042	6,826	6,042
Current Assets					
Stocks		1,026	999	1,026	999
Debtors	12	25,753	24,623	25,883	25,176
Investments	13	23,443	31,782	23,443	31,782
Cash at Bank and in Hand		20,901	12,949	20,718	12,765
		71,123	70,353	71,070	70,722
Creditors: Amounts Falling Due Within One Year	14	(78,178)	(60,611)	(78,306)	(61,161)
Net Current (Liabilities)/Assets		(7,055)	9,742	(7,236)	9,561
Total Assets Less Current Liabilities		205,017	189,871	204,836	189,690
Creditors: Amounts Falling Due After More Than One Year	15	(30,686)	(32,482)	(30,686)	(32,482)
Provisions for Liabilities and Charges	16	(588)	(376)	(588)	(376)
Net Assets Excluding Pension Liability		173,743	157,013	173,562	156,832
Pension Liability	32	(21,944)	(34,356)	(21,944)	(34,356)
Net Assets Including Pension Liability		151,799	122,657	151,618	122,476
Deferred Capital Grants	17	99,819	92,486	99,819	92,486
Endowments					
Expendable	18	2,882	2,441	2,882	2,441
Permanent	18	3,944	3,601	3,944	3,601
		6,826	6,042	6,826	6,042
Reserves					
General Reserve Excluding Pension Liability		67,098	58,485	66,917	58,304
Pension Reserve	32	(21,944)	(34,356)	(21,944)	(34,356)
General Reserve Including Pension Liability	19	45,154	24,129	44,973	23,948
Total		151,799	122,657	151,618	122,476

Professor Sir R.G. Burgess, Vice-Chancellor
 Mr R.H. Bettles, Chair of Council
 Dr B.E. Towle, Treasurer
 21 November 2011

Consolidated Cash Flow Statement

FOR THE YEAR ENDED 31 JULY 2011

	Note	2010/11 £000	2009/10 £000
Net Cash Inflow From Operating Activities	20	18,878	27,181
Returns on Investments and Servicing of Finance	21	(1,035)	(986)
Taxation		–	–
Capital Expenditure and Financial Investment	22	(25,750)	(10,037)
Management of Liquid Resources	23	6,192	(15,522)
Financing	24	10,026	(1,070)
Increase / (Decrease) in Cash in the Year	25	8,311	(434)

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

FOR THE YEAR ENDED 31 JULY 2011

	Note	2010/11 £000	2009/10 £000
Increase/(Decrease) in Cash in the Year	25	8,311	(434)
Change in Short Term Deposits	25	(6,192)	15,522
Change in Debt	25	(10,026)	1,070
Change in Net Funds		(7,907)	16,158
Net Funds/(Debt) at 1 August	25	8,617	(7,541)
Net Funds at 31 July	25	710	8,617

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

1 Funding Body Grants	2010/11	2009/10
	£000	£000
Recurrent Grant		
Higher Education Funding Council for England	62,497	61,388
Training and Development Agency for Schools	1,861	2,172
Non Recurrent Grants		
Higher Education Innovation Fund	1,322	1,207
Employer Engagement	1,095	687
Matched Funding Scheme	677	889
Skills for Sustainable Communities: Lifelong Learning Network	442	940
Training and Development Agency for Schools Specific Grants	140	164
Centres for Excellence in Teaching and Learning	1	1,210
Other Specific Grants	3,127	2,613
Deferred Capital Grants Released In Year		
Buildings	2,297	2,227
Equipment	1,381	1,313
	74,840	74,810
	74,840	74,810
2 Tuition Fees and Education Contracts	2010/11	2009/10
	£000	£000
Full-time Home and EU Students	31,653	29,082
Full-time International Students	32,841	32,169
Part-time Students	21,740	21,530
Research Training Support Grants	3,152	2,464
	89,386	85,245
	89,386	85,245
3 Research Grants and Contracts	2010/11	2009/10
	£000	£000
Research Councils	18,218	19,761
UK Based Charities	11,348	11,589
UK Government, Health and Hospital Authorities	11,819	9,849
UK Industry, Commerce and Public Corporations	2,428	2,751
EU Government Bodies	3,089	3,828
EU Other	901	1,055
Other Overseas	801	852
Other Sources	128	283
	48,732	49,968
	48,732	49,968

Research grants and contracts income includes £578,000 (2010: £800,000) in respect of the release of deferred capital grants on equipment.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

4 Other Income	2010/11	2009/10
	£000	£000
Residences, Catering and Conferences	21,630	20,352
Health Authority Funded Posts	11,574	12,159
Other Services Rendered	3,420	2,849
Bookshops	1,697	1,796
Deferred Capital Grants Released in Year	587	545
Other Income	8,095	7,334
	47,003	45,035

5 Endowment and Investment Income	2010/11	2009/10
	£000	£000
Income from Expendable Endowments	81	72
Income from Permanent Endowments	118	86
Income from Current Asset Investments and Cash at Bank	526	499
	725	657

6 Staff Costs	2010/11	2009/10
	£000	£000
Salaries	116,254	113,148
Social Security Costs	9,581	9,213
Other Pension Costs	18,418	16,792
	144,253	139,153
FRS 17 Adjustment	(1,787)	(1,704)
	142,466	137,449

The pension contributions to the Universities Superannuation Scheme (USS) were at the standard rate of 16% of salary.

The pension contributions to the Pension and Assurance Scheme (PAS) were at the standard rate of 28.7% of salary. In addition, the University made lump sum supplementary contributions of £1,707,000 (2010: £707,000) to the PAS.

The pension contributions to the Friends Provident Scheme (FPS) were at the standard rate of 6, 8, 10 or 12% of salary dependent upon the employee contribution rate chosen.

	2010/11	2009/10
	£000	£000
Emoluments of the Vice-Chancellor:		
Salary and Benefits	265	264
Employer's Pension Contributions	39	38
	304	302

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

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

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:

	All Staff		Staff on Clinical Scales		Staff on Non-clinical Scales	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
£100,000 – £109,999	14	16	6	10	8	6
£110,000 – £119,999	14	12	8	6	6	6
£120,000 – £129,999	5	13	4	11	1	2
£130,000 – £139,999	7	–	6	–	1	–
£140,000 – £149,999	4	4	4	4	–	–
£150,000 – £159,999	10	10	10	10	–	–
£160,000 – £169,999	5	3	5	3	–	–
£170,000 – £179,999	6	8	6	8	–	–
£180,000 – £189,999	5	4	5	4	–	–
£190,000 – £199,999	–	3	–	3	–	–
£200,000 – £209,999	1	1	1	1	–	–
£210,000 – £219,999	2	1	2	1	–	–
£220,000 – £229,999	2	1	2	1	–	–

There are no compensation for loss of office payments to former higher-paid staff.

Average staff numbers (full-time equivalent) by major category:

	2010/11	2009/10
Academic and Clinical	792	782
Research and Analogous	420	417
Administration, Library, Computer and Other Related	652	597
Technical	244	276
Clerical, Manual and Ancillary	1,038	1,039
	3,146	3,111

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

7 Interest and Other Finance Costs

	2010/11 £000	2009/10 £000
Loans Wholly or Partly Repayable in More Than Five Years	1,744	1,633
Net Charge on Pension Scheme	1,240	1,263
	<u>2,984</u>	<u>2,896</u>

8 Analysis of Total Expenditure by Activity

	2010/11 £000	2009/10 £000
Academic Departments	107,025	102,783
Academic Services	22,499	21,344
Administration and Central Services	33,528	28,720
Premises	27,690	25,889
Residences, Catering and Conferences	18,217	17,520
Research Grants and Contracts	39,069	40,348
Other Expenses	3,725	2,954
	<u>251,753</u>	<u>239,558</u>

Total expenditure includes:

External Auditor's Remuneration in Respect of Audit Services:		
Deloitte LLP	45	46
External Auditor's Remuneration in Respect of Non-audit Services:		
Deloitte LLP	21	339
Operating Lease Rentals:		
Land and Buildings	361	359
Other	159	155
Payments to Members of Council in Respect of Council Activities	1	1

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

9 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 2010	165,731	11,426	31,241	20,783	229,181
Additions	14,447	5,044	1,769	18,103	39,363
Disposals	–	–	(365)	–	(365)
Transfers at cost	18,900	–	–	(18,900)	–
At 31 July 2011	199,078	16,470	32,645	19,986	268,179
Depreciation					
At 1 August 2010	25,155	2,456	27,552	–	55,163
Charge for the year	5,232	472	2,531	–	8,235
Eliminated on disposals	–	–	(365)	–	(365)
At 31 July 2011	30,387	2,928	29,718	–	63,033
Net Book Value					
At 31 July 2010	140,576	8,970	3,689	20,783	174,018
At 31 July 2011	168,691	13,542	2,927	19,986	205,146

Land and buildings with a net book value of £76,540,551 and cost of £89,954,781 have been funded from UK Government 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 & Queen Elizabeth I College with a net book value of £5,130,823 and cost of £6,471,154. The remaining leasehold land and buildings includes leases for various Leicester NHS sites and the University Road sports centre currently occupied by Nuffield Health.

Freehold land and buildings includes £4,821,543 in respect of land. In accordance with the University's accounting policies this is not depreciated.

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 (note 17)	4,843
General Income	3,392
	<u>8,235</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

10 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 (ceased trading on 31 July 2011)	100%	Provision of commercial services in association with the University. On 31 July 2011 this trade was transferred to 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
Gamma Technologies Limited	49%	Development of a portable scintigraphy camera
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
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	36%	Design and development of novel rapid battery chargers
Bioastral Limited	32%	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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

11 Endowment Asset Investments

	2011 £000	2010 £000
Consolidated and University		
Balance at 1 August	6,042	5,005
Additions: Capital	683	465
Net (Expenditure)	(227)	(17)
Appreciation on Revaluation	328	589
	<u>6,826</u>	<u>6,042</u>
Balance at 31 July	<u>6,826</u>	<u>6,042</u>
Represented by:		
Securities	5,270	4,845
Cash at Bank Held for Endowment Funds	1,556	1,197
	<u>6,826</u>	<u>6,042</u>

12 Debtors

	Consolidated		University	
	2011 £000	2010 £000	2011 £000	2010 £000
Amounts Falling Due Within One Year:				
Research Grants and Contracts	10,404	12,796	10,404	12,796
Amount Owed by Subsidiary Undertaking	–	–	130	553
Other Debtors and Prepayments	15,349	11,034	15,349	11,034
Amounts Falling Due After More Than One Year:				
HEFCE Matched Funding	–	793	–	793
	<u>25,753</u>	<u>24,623</u>	<u>25,883</u>	<u>25,176</u>

13 Current Asset Investments

	2011 £000	2010 £000
Consolidated and University		
Fixed Interest Stocks	683	702
Equities	292	2,420
Bank and Building Society Deposits	22,468	28,660
	<u>23,443</u>	<u>31,782</u>

The bank and building society deposits shown above are held on time deposits. The weighted average interest rate receivable was 2.26% and these are held for an average period of 83 days.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

14 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2011 £000	2010 £000	2011 £000	2010 £000
Mortgages and Other Loans	13,529	1,707	13,529	1,707
Research Grants and Contracts	17,835	15,257	17,835	15,257
Payments Received in Advance	14,809	12,062	14,809	12,062
Other Creditors	19,765	19,865	19,765	19,858
Social Security and Other Tax Payable	3,655	3,364	3,655	3,364
Accruals and Deferred Income	8,585	8,356	8,583	8,356
Amount Owed to Subsidiary Undertaking	–	–	130	557
	78,178	60,611	78,306	61,161

15 Creditors: Amounts Falling Due After More Than One Year

	2011 £000	2010 £000
Consolidated and University		
Mortgages:		
Barclays Bank Plc repayable by 2018	6,604	7,520
NatWest Bank Plc repayable by 2019	3,227	3,522
Barclays Bank Plc repayable by 2031	20,055	20,651
Salix Revolving Green Fund	800	789
	30,686	32,482

The NatWest mortgage is 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. The rates of interest on both loans are hedged, with half of the balance capped at 5.5% and the remainder covered by swap arrangements of approximately 4.8%. A further short-term swap of 2.97% is in place until February 2013, fixing the average rate paid on each loan at approximately 4.6%. As at 31 July 2011 the cap and swap hedging arrangements had a negative fair value of £3,703,447.

Bank loans and mortgages are repayable as follows:

	2011 £000	2010 £000
Consolidated and University		
In one year or less (<i>note 14</i>)	13,529	1,707
Between one and two years	1,911	1,806
Between two and five years	6,430	6,075
In five or more years	22,345	23,812
	44,215	33,400

Bank loans repayable in one year or less include a new loan from Barclays Bank Plc which had an outstanding balance of £11.723 million at 31 July 2011. The intention is to draw down the full £20 million facility over the next year. The loan is currently based on a monthly revolving facility, on full draw-down it will convert to a long term loan. A long-term swap is in place at 4.165% to 2036 to fix the long-term interest rate payable.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

16 Provisions for Liabilities and Charges

	2011 £000	2010 £000
Consolidated and University		
Balance at 1 August	376	539
Expenditure in the Year	(92)	(163)
Transferred from Income and Expenditure Account:		
In Respect of Pension Costs	304	116
In Respect of Decommissioning	–	(116)
Balance at 31 July	<u>588</u>	<u>376</u>

Included within provisions are amounts payable for enhanced pension costs and severance payments in respect of staff who have elected to take early retirement or voluntary severance. This provision is additional to that disclosed for pension costs under FRS 17 (note 32). Provisions for enhanced pension costs and severance payments are calculated on the basis of estimated costs for members of staff that sign agreements before 31 July each year.

Also included in provisions are the expected costs of decommissioning certain scientific facilities within the University. Based upon knowledge at the date of signing the financial statements it is expected that the decommissioning may take place in 2027.

17 Deferred Capital Grants

	Funding Council £000	Other Grants & Benefactions £000	Total £000
Consolidated and University			
At 1 August 2010			
Buildings	70,297	18,947	89,244
Equipment	2,371	871	3,242
Total	<u>72,668</u>	<u>19,818</u>	<u>92,486</u>
Cash Received and Receivable			
Buildings	7,974	3,366	11,340
Equipment	505	331	836
Total	<u>8,479</u>	<u>3,697</u>	<u>12,176</u>
Released to Income and Expenditure			
Buildings	2,297	587	2,884
Equipment	1,381	578	1,959
Total	<u>3,678</u>	<u>1,165</u>	<u>4,843</u>
At 31 July 2011			
Buildings	75,974	21,726	97,700
Equipment	1,495	624	2,119
Total	<u>77,469</u>	<u>22,350</u>	<u>99,819</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

18 Endowments

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2011 Total £000	2010 Total £000
Consolidated and University						
Balances at 1 August:	908	2,693	3,601	2,441	6,042	5,005
New Endowments	–	96	96	587	683	465
Investment Income	20	98	118	81	199	158
Expenditure	(20)	(63)	(83)	(343)	(426)	(175)
	–	35	35	(262)	(227)	(17)
Increase in Market Value of Investments	61	151	212	116	328	589
Balance at 31 July	969	2,975	3,944	2,882	6,826	6,042
Represented by:						
Capital	908	2,789	3,697	2,685	6,382	5,177
Accumulated Income	61	186	247	197	444	865
	969	2,975	3,944	2,882	6,826	6,042

Funds Exceeding £100,000 at 31 July

	2011 £000	2010 £000
Restricted Permanent		
Burton Holocaust Centre	259	242
Tyler Chair	159	147
Fraser Bursary Fund	124	112
Faire and Allaway Fund	120	118
Marc Fitch Fund	111	104
Restricted Expendable		
Transplant Research Programme Fund	656	332
Wathes Centenary Scholarship Fund	628	585
Ulverscroft Endowment	499	464
Frears Endowment	295	368
Richard Attenborough Centre Fund	266	288
Spire Endowment	166	152
Exercise Research Programme 1	112	–
Unrestricted Permanent		
Lewis Lilley Fund	278	258
Church Langton Fund	228	215
Simpson Gee Fund	167	155

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

19 General Reserve Including Pension Liability

	Consolidated £000	University £000
Balance at 1 August 2010	24,129	23,948
Surplus Retained for the Year	9,160	9,160
Actuarial Gain in Respect of Pension Scheme	11,865	11,865
Balance at 31 July 2011	45,154	44,973

20 Reconciliation of Surplus before Tax to Net Cash Inflow from Operating Activities

	2010/11 £000	2009/10 £000
Surplus before Tax	8,933	16,157
Depreciation (<i>note 9</i>)	8,235	7,360
Deferred Capital Grants Released to Income (<i>note 17</i>)	(4,843)	(4,885)
Investment Income (<i>note 5</i>)	(725)	(657)
Interest Payable Excluding FRS 17	1,744	1,633
(Increase) / Decrease in Stocks	(27)	26
(Increase) in Debtors	(567)	(1,659)
Increase in Creditors	6,463	9,810
Increase / (Decrease) in Provisions	212	(163)
Pension Costs less Contributions Payable	(547)	(441)
Net Cash Inflow from Operating Activities	18,878	27,181

21 Returns on Investments and Servicing of Finance

	2010/11 £000	2009/10 £000
Income from Endowments (<i>note 18</i>)	199	158
Other Interest Received	496	496
Interest Paid	(1,730)	(1,640)
	(1,035)	(986)

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

22 Capital Expenditure and Financial Investment

	2010/11 £000	2009/10 £000
Fixed Asset Investments Acquired	(31)	(20)
Current Asset Investments Sold/(Acquired)	2,147	(200)
New Endowments Received (<i>note 18</i>)	683	465
Endowment Funds Invested (<i>note 18</i>)	(96)	(133)
Payments made to Acquire Fixed Assets	(40,629)	(22,961)
Deferred Capital Grants Received	12,176	12,812
	<u>(25,750)</u>	<u>(10,037)</u>

23 Management of Liquid Resources

	2010/11 £000	2009/10 £000
Withdrawals from/(Addition to) Deposits	6,192	(15,522)
	<u>6,192</u>	<u>(15,522)</u>

24 Financing

	2010/11 £000	2009/10 £000
Loans Brought Forward	34,189	35,259
New Unsecured Loan	11	544
New Secured Loan	11,722	–
Capital Repayments	(1,707)	(1,614)
Net Changes	<u>10,026</u>	<u>(1,070)</u>
Loans Carried Forward	<u>44,215</u>	<u>34,189</u>

25 Analysis of Changes in Net Funds

	At 1 August 2010 £000	Cash Flows £000	Other Changes £000	At 31 July 2011 £000
Endowment Assets (<i>note 11</i>)	1,197	359	–	1,556
Cash at Bank and in Hand	12,949	7,952	–	20,901
Cash Resources	14,146	8,311	–	22,457
Short Term Investments (<i>note 13</i>)	28,660	(6,192)	–	22,468
Debt Due Within One Year (<i>note 15</i>)	(1,707)	(10,015)	(1,807)	(13,529)
Debt Due After One Year (<i>note 15</i>)	(32,482)	(11)	1,807	(30,686)
Net Funds	<u>8,617</u>	<u>(7,907)</u>	<u>–</u>	<u>710</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

26 Capital Commitments

	Consolidated		University	
	2011 £000	2010 £000	2011 £000	2010 £000
Commitments Contracted at 31 July	15,756	30,727	15,756	30,727
Authorised but Not Contracted at 31 July	62,706	17,612	62,706	17,612
	78,462	48,339	78,462	48,339

27 Contingent Liability

The University is not aware of any contingent liabilities.

28 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:

	Land and Buildings		Land and Buildings	
	2011 £000	Equipment 2011 £000	2010 £000	Equipment 2010 £000
Consolidated and University				
Leases expiring:				
Within one year	3	4	100	–
Between two and five years	115	155	45	155
Over five years	243	–	213	–
	361	159	358	155

The University has no finance lease commitments.

29 Post Balance Sheet Events

There are no post balance sheet events.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

30 Amounts Disbursed as Agent

Access to Learning Fund	2010/11	2009/10
	£000	£000
Consolidated and University		
Income		
HEFCE Grants	232	284
Interest	-	1
	<u>232</u>	<u>285</u>
Expenditure		
Expenditure in Relation to Eligible Students	232	285
Audit Fees	-	-
	<u>232</u>	<u>285</u>
Balance at 31 July	<u>-</u>	<u>-</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	2010/11	2009/10
	£000	£000
Cash Received	1,631	1,759
Bursaries Paid	1,603	1,806
Administrative Costs and Training Grant	32	34
VAT on Administrative Costs	6	6
	<u>1,641</u>	<u>1,846</u>
Repayable (from) TDA	<u>(10)</u>	<u>(87)</u>

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

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

31 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 or a member of the senior management team may have an interest.

All such transactions, including those identified below, are conducted at arms' length and in accordance with the University's Financial Regulations and normal procurement procedures.

The University has taken advantage of the exemption within FRS 8 (Related Party Disclosures) and has not disclosed transactions with Leicester Academic Trading Services Ltd. and Leicester Academic Library Services Ltd. where it holds 100% of the voting rights.

Related parties were identified by examining returns submitted by members of Council and senior management team members for the financial year 2010/11.

These financial statements include the following transactions with related parties. No information has been listed for organisations where the income and expenditure is less than £25,000 in the financial year:

	Income Transactions £000	Expenditure Transactions £000	Balance due to/(from) the University £000
University Hospitals of Leicester NHS Trust	11,494	5,755	(977)
University of Leicester Students' Union	22	1,427	684
Universities and Colleges Admissions Service	–	89	–
Higher Education Academy	70	17	(41)
Media Archive for Central England	3	64	–
University of Leicester Pension and Assurance Scheme	55	–	55
British Library	–	44	(5)
SUMS Consulting	–	34	–
Northamptonshire Healthcare Foundation Trust	–	30	(3)
	11,644	7,460	(287)

University Hospitals of Leicester NHS Trust

The University's College of Medicine, Biological Sciences and Psychology has a close business relationship with the University Hospitals of Leicester NHS Trust. The University employs many staff which serve both organisations and the NHS Trust funds its share of these staff costs in the form of a recharge from the University. These recharges represent the majority of the income transactions disclosed above. One member of Council is a Non-Executive Director of the NHS Trust.

University of Leicester Students' Union

The University contributes towards the running costs of the Union in the form of a grant which represents the majority of the expenditure transactions shown above. The University Council includes the Academic Affairs Officer of the Students' Union.

Universities and Colleges Admissions Service (UCAS)

One member of Council is the Board Chair of UCAS.

Higher Education Academy

One member of Council is the Chair of the Higher Education Academy.

Media Archive for Central England

One member of Council is a Director of the Media Archive for Central England.

University of Leicester Pension and Assurance Scheme

One member of the senior management team is a Trustee of the University's Pension and Assurance Scheme.

British Library

One member of Council is a member of the British Library Board. A member of the senior management team is a member of the Capital Programme Committee.

SUMS Consulting

One member of the senior management team is a Director of SUMS Consulting

Northamptonshire Healthcare Foundation Trust

One member of Council is a Governor of the Northamptonshire Healthcare Foundation Trust

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

32 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 contributions to the various schemes in respect of its own staff, in the years 2010/11 and 2009/10 were:

	2010/11 £000	2009/10 £000
Universities Superannuation Scheme	12,765	11,895
University of Leicester Pension and Assurance Scheme	4,101	3,395
University of Leicester Stakeholder Scheme	486	439
NHS Pension Scheme	1,066	1,063
	<u>18,418</u>	<u>16,792</u>
FRS 17 adjustment re PAS charges to salaries & wages	(1,787)	(1,704)
	<u><u>16,631</u></u>	<u><u>15,088</u></u>

Universities Superannuation Scheme

The University participates in the Universities Superannuation Scheme, 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. At 31 March 2011 USS had over 142,000 active members and the University has 1,869 active members participating in the Scheme.

Under the Scheme trust deed and rules, the employer contribution rate is determined by the Scheme trustees, acting on actuarial advice.

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

The latest triennial actuarial valuation of the Scheme, using the projected unit method, was at 31 March 2008. The Actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2011 are also included in this note.

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

Males (Females) currently aged 65	22.8 (24.8) years
Males (Females) currently aged 45	24.0 (25.9) years

At the valuation date, the value of the assets of the Scheme was £28,842.6 million and the value of the Scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

The Scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the Actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008, global investment markets have continued to fluctuate and at 31 March 2011, the Actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Compared to the previous 12 months, the funding level has improved from 91% (as at 31 March 2010) to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). The next formal valuation is as at 31 March 2011, details of which are not yet available, and this will incorporate updated assumptions agreed by the trustee company. With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS 17 basis, using an AA bond discount rate of 5.5% per annum based on spot yields, the Actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

Surpluses or deficits which arise at future valuations may impact on institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

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 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 although the trustee is mindful of the desirability of keeping the funding level on the Scheme's technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions. The Actuary has confirmed that the Scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the institution was £12,765,000 (2010: £11,895,000). This includes £1,131,894 (2010: £1,048,636) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 16% of pensionable salaries.

Leicester Pension and Assurance Scheme

The University of Leicester Pension and Assurance Scheme was established with effect from 23 July 1962 to provide retirement and death benefits for support staff (staff in levels 1 to 5) 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 Schemes 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 I Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006, the Fund became a "registered pension scheme" for tax purposes. It is registered under the Data Protection Act 1998 (Registration number Z8179467) and with the Pension Scheme Registry (Reference number 100222535). Members are currently contracted out of the State Second Pension Scheme.

The Trustees of the Scheme have the responsibility for its proper and correct management. The Scheme is administered by the Pensions Office, which forms part of the Finance Office, at the University of Leicester.

Subject to the provisions of the Trust Deed and Scheme Rules, the power of appointing and removing Trustees is exercised by deed and is invested in the principal employer, the University of Leicester. Member Nominated Trustees may only be removed if all other Trustees or the Pensions Act allows. Member Nominated Trustees are nominated by active and pensioner members of the Scheme and ballots are held if required.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

32 Pension Schemes (continued)

The latest triennial valuation was undertaken on 1 August 2010. The outcome of the valuation was that:-

- the value of the Scheme liabilities was £123.406 million
- the Scheme's assets were valued at £94.601 million
- there was therefore a shortfall of £28.805 million
- which represents a funding level (assets divided by liabilities) of 77%

Overall, the Scheme's funding level of 77% represented a significant deterioration from the 90% funding level achieved in the 2007 valuation when a deficit of £10.166 million was reported.

The University has agreed to meet the past service shortfall of £28.805 million by continuing to pay a supplementary employer's contribution rate of 4.12% of each employee's pensionable salary for the period from 1 August 2011 up to 31 July 2027. In addition, the University has made a payment in the year of £1 million and has agreed to make annual payments of £1.5 million in each year beginning 2011/12 until 2026/27. The arrangements put in place are required to be submitted to the Pensions Regulator by 31st October 2011 to obtain approval. The arrangements are summarised below:-

Employer's contribution rate for future service	24.58%
Employer's supplementary contribution rate to meet past service shortfall	4.12%
	<hr/>
Total Employer's contribution rate	28.70%
Employee's contribution rate for future service	6.35%
	<hr/>
Total contribution rate	35.05%
	<hr/> <hr/>
Employer's annual lump sum payment 2010/11	£707,000
Employer's special payment 2010/11	£1,000,000
Employer's annual lump sum payment to meet past service shortfall 2011/12 to 2026/27	£1,500,000

The assumptions used in the 1 August 2010 valuation are as follows:-

Date of latest actuarial valuation	1 August 2010
Actuarial method	Projected Unit
Mortality	Average of medium and long cohort projections
Investment returns per annum	4.6% – 5.7%
Pension increases per annum	2.9%
Salary scale increases per annum	3.4%

The employer contribution rate to finance future Scheme benefits is 24.58% 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 next annual funding update 1 August 2011 has not yet been received from the Actuary.

The actuarial valuation was calculated according to the assumptions agreed by the University and the Trustees in the PAS' Statement of Funding Principles which was confirmed before the actuarial valuation in August 2010. These assumptions are required to be prudent. An alternative view of the financial position of the fund can be found in the accounting FRS 17 assessment. This shows, using a different set of assumptions, that the deficit in the PAS at 31 July 2011 is £21.944 million.

The set of assumptions used by the University for the 31 July 2011 FRS 17 valuation are, as far as it is possible to do so, the same assumptions as adopted by the Trustees in their 2010 Statement of Funding Principles for the formal actuarial valuation as at 1 August 2010.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

Set out below is the FRS 17 disclosure as at 31 July 2011, prepared in accordance with the requirements of the Actuarial Guidance Note GN36 – Accounting for Retirement Benefits under Financial Reporting Standard 17 as adopted by the Board for Actuarial Standards.

The assumptions used by the Actuary in the FRS 17 valuation are:

	2011	2010
Rate of increase in salaries *	3.70%	3.90%
Rate of increase in pensions in payment:		
Post 05.04.1988 GMPs	3.00%	2.90%
Non-GMPs	3.20%	2.90%
Discount rate	5.30%	5.40%
Inflation assumption RPI	3.20%	2.90%
Inflation assumption CPI	2.70%	n/a
Expected return on plan assets at 31 July	6.10%	6.00%

* The 2011 FRS 17 assumption for salary increases is 3.4% from 2016 onwards. Up to that period the percentage increase is as follows:

Year 1	(01.08.2011)	1.50%
Year 2	(01.08.2012)	2.00%
Year 3	(01.08.2013)	2.50%
Year 4	(01.08.2014)	3.00%
Year 5	(01.08.2015)	3.40%

The life expectancies in years based on a retirement age of 65 are:

	2011	2010
Males – retirals in year	21.9	23.3
– retirals in 20 years	23.4	24.8
Females – retirals in year	24.3	24.6
– retirals in 20 years	25.5	25.9

Scheme Assets

The value of the assets in the Scheme were:

	2011	2010
	£000	£000
Equities	63,309	55,371
Bonds	41,623	38,489
Cash	466	54
Insured Assets	208	183
Net Current Assets	340	624
	105,946	94,721

The expected long-term rates of return were:

	2011	2010
Equities	6.60%	5.40%
Bonds	5.30%	6.50%
Cash	3.60%	4.00%
Insured Assets	–	–
Net Current Assets	–	–

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

32 Pension Schemes (continued)

Scheme Assets (continued)

	2011 £000	2010 £000
Opening Fair Value of Plan Assets	94,721	79,884
Expected Return on Assets	5,698	5,251
Contributions by Members	492	582
Contributions by Employer	4,207	3,742
Actuarial Gains	5,026	8,384
Estimated Benefits Paid	(4,198)	(3,122)
Total	<u>105,946</u>	<u>94,721</u>

The University expects to contribute £3.881 million to its defined benefit pension plan from 1 August 2011 – 31 July 2012.

Net Pension Liability

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

	2011 £000	2010 £000
Fair value of employer assets	105,946	94,721
Present value of Scheme liabilities	(127,890)	(129,077)
Net pension liability	<u>(21,944)</u>	<u>(34,356)</u>

Present Value of the Defined Benefit Plan:

	2011 £000	2010 £000
Opening Defined Benefit Obligation	129,077	104,473
Current Service Cost	2,420	2,038
Interest Cost	6,938	6,514
Contributions by Members	492	582
Actuarial (Gains)/Losses	(6,839)	18,592
Estimated Benefits Paid	(4,198)	(3,122)
Closing Defined Benefit Obligation	<u>127,890</u>	<u>129,077</u>

Analysis of amounts charged to Income and Expenditure Account:

	2010/11 £000	2009/10 £000
Current service cost	(2,420)	(2,038)
Financing:		
– expected return on Scheme assets	5,698	5,251
– interest on expected Scheme liabilities	(6,938)	(6,514)
– net charge	<u>(1,240)</u>	<u>(1,263)</u>
Net Income and Expenditure Account Cost	<u>(3,660)</u>	<u>(3,301)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

	2010/11	2009/10
	£000	£000
Actual return on plan assets	10,724	13,635

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

	2010/11	2009/10
	£000	£000
Actual return less expected return on Scheme assets	5,026	8,384
Experience gains and losses arising on Scheme liabilities	4,538	(234)
Changes in assumptions underlying the present value of Scheme liabilities	2,301	(18,358)
Total actuarial gain / (loss) recognised	11,865	(10,208)

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

	2011	2010
	£000	£000
Deficit on Scheme at 1 August	(34,356)	(24,589)
Movement in year:		
– current service cost	(2,420)	(2,038)
– contributions	4,207	3,742
– past service costs	–	–
– other finance loss	(1,240)	(1,263)
– actuarial gain / (loss)	11,865	(10,208)
Deficit on Scheme at 31 July	(21,944)	(34,356)

The gains and losses for the year ended 31 July 2011 were as follows:

	2011	2010	2009	2008	2007
Difference between the expected and actual return on Scheme assets:					
Amount (£000)	5,026	8,384	(9,957)	(12,168)	2,382
Percentage of Scheme assets	4.7%	8.9%	(12.5)%	(14.7)%	2.7%
Experience gains and (losses) on Scheme liabilities:					
Amount (£000)	4,538	(234)	12,999	1,848	(388)
Percentage of the present value of Scheme liabilities	3.7%	(0.2)%	12.4%	1.6%	(0.3)%
Total Amount Recognised in the Statement of Total Recognised Gains and (Losses):					
Amount (£000)	11,865	(10,208)	4,987	(1,325)	1,782
Percentage of the present value of Scheme liabilities	9.3%	(7.9)%	4.8%	(1.2)%	1.5%

Notes to the Financial Statements

FOR THE YEAR ENDED 31 JULY 2011

32 Pension Schemes (continued)

The University of Leicester Stakeholder Scheme

The University of Leicester Stakeholder Scheme is a defined contribution scheme offered through Friends Provident. It was established on 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 306 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 1% 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%. No commission is paid to Aon. The default investment strategy is the Baillie Gifford Managed Fund. The Baillie Gifford Managed Fund carries an additional charge of 0.2% on top of the basic Scheme annual management charge. In the 7 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 operates a salary sacrifice arrangement for pensions deductions. This is an opt-in scheme.

The University maintains an Advisory and Issues Group, which has trade union membership, to support the governance of the Scheme and to advise on the Scheme to the University's Finance Committee.

NHS Scheme

The University has 106 employees who are members of the NHS Pension Scheme. The University allows continued membership of the Scheme for appropriate 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.

Five Year Summary Accounts

FOR THE YEAR ENDED 31 JULY 2011

Income and Expenditure Account

	2010/11 £000	2009/10 £000	2008/09 £000	2007/08 £000	2006/07 £000
Income					
Funding Body Grants	74,840	74,810	67,746	66,107	62,227
Tuition Fees and Education Contracts	89,386	85,245	69,787	57,580	45,938
Research Grants and Contracts	48,732	49,968	45,007	41,513	37,626
Other Income	47,003	45,035	45,663	38,180	38,019
Endowment Income and Interest	725	657	1,040	1,932	1,712
Profit on Disposal of Assets	–	–	–	–	6,307
Total Income	260,686	255,715	229,243	205,312	191,829
Expenditure					
Staff Costs	142,466	137,449	130,882	119,473	110,690
Other Operating Expenses	98,068	91,853	82,076	74,585	64,640
Depreciation	8,235	7,360	6,658	6,996	6,667
Interest and Other Finance Costs	2,984	2,896	3,142	2,761	2,660
Total Expenditure	251,753	239,558	222,758	203,815	184,657
Transfer from/(to) Endowment Funds	227	17	(43)	(147)	(78)
Surplus for the Year	9,160	16,174	6,442	1,350	7,094

Balance Sheet

Fixed Assets	205,246	174,087	156,152	154,973	145,336
Endowment Asset Investments	6,826	6,042	5,005	5,427	5,842
Net Current (Liabilities)/Assets	(7,055)	9,742	5,343	1,182	4,457
Creditors: Amounts Due After One Year	(30,686)	(32,482)	(33,645)	(35,014)	(36,323)
Provisions for Liabilities and Charges	(588)	(376)	(539)	(639)	(479)
Pension Liability	(21,944)	(34,356)	(24,589)	(29,670)	(28,434)
Total Net Assets	151,799	122,657	107,727	96,259	90,399
Represented By:					
Deferred Capital Grants	99,819	92,486	84,559	84,098	77,848
Endowments	6,826	6,042	5,005	5,427	5,842
General Reserve	67,098	58,485	42,752	36,404	35,143
Pension Reserve	(21,944)	(34,356)	(24,589)	(29,670)	(28,434)
Total Funds	151,799	122,657	107,727	96,259	90,399

Financial Statistics

FOR THE YEAR ENDED 31 JULY 2011

Sources of Income

% of Total Income	2010/11	2009/10	2008/09	2007/08	2006/07
Grants from Funding Bodies (HEFCE and TDA)	28.7%	29.3%	29.5%	32.2%	32.4%
Tuition Fees and Education Contracts	34.3%	33.3%	30.5%	28.0%	23.9%
Research Grants and Contracts	18.7%	19.5%	19.6%	20.2%	19.6%
Residences, Catering and Conferences	8.3%	8.0%	8.7%	8.3%	7.9%
Other Income	10.0%	9.9%	11.7%	11.3%	16.2%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure	2010/11	2009/10	2008/09	2007/08	2006/07
Staff Costs	56.6%	57.4%	58.8%	58.6%	60.0%
Other Operating Expenses	38.9%	38.3%	36.8%	36.6%	35.0%
Depreciation	3.3%	3.1%	3.0%	3.4%	3.6%
Interest Payable	1.2%	1.2%	1.4%	1.4%	1.4%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus for the Year as a % of Total Income	3.5%	6.3%	2.8%	0.7%	3.7%

Indicators of Financial Strength

Days Ratio of Total General Funds to Total Expenditure <i>To indicate the number of days total expenditure which could be met from general funds</i>	97	89	70	65	69
Days Ratio of Net Current (Liabilities)/Assets to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i>	(10)	15	8	2	9
% Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i>	46	56	78	96	103

Indicators of Liquidity and Solvency

% Ratio of Liquid Assets to Current Liabilities <i>Extent to which current liabilities could be met from cash and liquid investments</i>	57	74	64	52	58
Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i>	0.9	1.2	1.1	1.0	1.1
Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i>	51	50	47	56	58



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