



FINANCIAL STATEMENTS

for the year ended 31 July 2005

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Treasurer's Report for the Year Ended 31 July 2005

This year's Financial Statements reflect the ongoing impact of the University's major development programme, including the completion of the Henry Wellcome Building, the start of a major extension to the Library through the newly formed Leicester Academic Library Services Limited and the new residential hall on the Oadby estate, and much else besides. It is in the context of these significant changes that I comment on the outturn for the year and other matters.

Income and Expenditure Account

The surplus for the year of £1,788k included £2.2m from disposals of land – an integral part of the overall plan to rationalise and improve the University's properties. Costs of £1.3m for an enhanced voluntary severance and early retirement programme were absorbed so that ignoring these exceptional items there was a surplus of £0.9m, 0.5% of total turnover of £167m – a stepping stone towards higher surpluses of 2% or 3% which I believe we require to allow proper development of new activities and the financing of investment in facilities.

The surplus came after a year which brought some financial strains. Numbers of home undergraduate students were reduced in line with the University's commitment to the Funding Council to return within the contract range tolerance bands, while numbers of overseas students on campus-based courses grew by less than budgeted – although 8.8% growth in income was achieved. The distance learning programme remained broadly at the level achieved in 2003/04. There were also some higher than expected vacancies in student residences, but growth in conference income and good management of costs during the year helped to mitigate the position.

To counterbalance these strains, there was underspending on staff budgets, arising from higher vacancies than planned, and a strong growth in surpluses on departmental miscellaneous activities, among other factors.

The growth in turnover was £6m or 3.7% to reach £167.5m which is pleasing. However, within this total, income from Research Grants and Contracts fell to £35m, 3.5% below 2003/04. This is a matter of concern on which new financial and other incentives are now proposed.

Balance sheet

Net assets grew by 8% to £95.4m, largely as a result of the significant capital programme, including investment of £17.1m in new buildings and equipment. As mentioned earlier, the Henry Wellcome Building, a new purpose built biological science and psychology building costing £22.5m, was completed in the year. Expenditure was also incurred by the newly-formed subsidiary company in commencing the Library project and work began on the

new residential hall being developed at Manor Road, Oadby, formerly Villiers Hall.

Endowment assets grew to £5.0m, including £282k of new donations. I hope to have more to report on new donations next year, following an active fundraising programme being led by Nicholas Corah, one of the University's Pro-Chancellors.

At the year end some £3.5m of costs for the Villiers Hall and the Library redevelopment were being funded by a short-term loan facility from Barclays Bank giving rise to a negative net current asset position whilst a new long term loan facility was being negotiated. This has now been completed and a loan of £33m is in place to restructure the balance sheet and provide the funds to finance the ongoing capital programme.

Cash flow

There was a welcome cash inflow from operating activities of £3.6m in the year, reflecting the surplus and an increase in depreciation and creditors. This compared with a £4.6m cash outflow in 2003/04. Capital grants of £9.8m were received towards the costs of the capital expenditure in the year. The net result was that the year end cash position fell by £0.5m, a good result in a year of heavy capital expenditure when there was no significant change in total borrowings.

Investment performance

The University's investments comprise of short-term deposit balances and endowment funds. Short-term deposits are invested with banks and building societies, with a proportion managed by external professional managers. The return on cash held on deposit during the year was 4.76%, in line with bank base rate which remained unchanged, at 4.75%, from 5 August 2004.

Endowment assets are invested directly in equities and bonds as well as in unitised equity and bond funds. The overall improved performance of these investments resulted in an appreciation of £640,000 in the year, compared to £70,000 in 2003/04.

The total of endowment income and interest receivable (£1.092m) increased by 4% compared to 2003/04 (£1.05m).

Pension schemes

The main issue in the year concerned the University's defined benefit scheme (now closed to new members) for support staff. The actuarial valuation as at 1 August 2004 showed a deficit of £16.4m and a corresponding funding level of 76%. The University has increased its contribution as employer to 28.7% of salaries from 1 August 2005, from the 21.35% applying in 2004/05. The increase is a

Treasurer's Report for the Year Ended 31 July 2005 (continued)

significant factor in future years' budgets; the employee rate remains at 6.35%. The FRS17 deficit shown for the PAS at 31 July 2005 was £27.4m.

The employers' contribution to the Universities Superannuation Scheme (USS) in respect of many other staff remained at 14% in the year; an actuarial valuation as at 31 December 2004 is awaited.

In respect of both schemes the impact of the new Pension Protection Levy is not yet known but it may give rise to additional costs.

Prospects

The financial climate for the University is improving but remains challenging. The prospect of an injection of new income from higher variable fees for Home/EC undergraduates from 2006 is very welcome, and the University will play its full part in providing bursaries and other support to widen access. The preparations for calculating and budgeting for Full Economic Costs on Research Council and Government Department research projects have gone well, and better research funding should flow from 2006 allowing investment in sustainable infrastructure.

However, income is not growing as fast as costs, especially prospective pay costs including pension contributions and the likely impact of the Framework Agreement. There are further signs this year of a slowdown in growth in some overseas student recruitment markets, and distance learning activities face

some challenges as well. Key investments in better facilities such as the Library are important to maintain the quality of what we offer. In the circumstances, a second round of savings is necessary and is now being pursued, although additional income growth is a better alternative where possible.

The University made good progress in 2004/05 in many aspects, including strong upward moves in some league tables, and a joint top performance in the National Student Survey for universities teaching full-time students. Many excellent new staff have been appointed. Fine new facilities and improvements are coming on stream.

Now the challenge is to build on those achievements, exploiting the opportunities created while keeping the University's finances sound as circumstances and markets move.

Conclusion

The University is engaged in a programme of development which is both exciting and demanding; the resulting benefits for both students and staff will be substantial. All of this will be achieved through the continuing skill and dedication of all members of staff who in a myriad of ways contribute to the success of the University.

M.A. Chamberlain
Treasurer

20 December 2005

Corporate Governance

The following statement is given to assist readers of the financial statements to obtain an understanding of the governance procedures of the University. The University endeavours to conduct its business in accordance with the seven Principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998, incorporating internal control guidance as amended by the British Universities Finance Directors Group. The Committee of University Chairmen issued a revised Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland during 2004/05. The Council has been considering its current procedures in the light of the CUC Guidance, with which it will be fully compliant by the end of the 2005/06 session.

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

During 2004/5 the Council implemented all of the principal recommendations included in the independent review of its effectiveness carried out in 2003.

The Policy and Strategy Committee inter alia recommends to Council the University's annual financial statements and annual budgets. The Budgets and Resources Committee is responsible to the Policy and Strategy Committee for managing the resources allocated to the academic and academic-services areas. The Finance and General Purposes Committee is

responsible to the Policy and Strategy Committee for the overall monitoring of the University's financial health and advising on the overall University financial strategy. The Finance and General Purposes Committee monitors the financial resources that it allocates to the administrative and other support service areas.

The three Remuneration Committees determine the remuneration of professorial and senior administrative staff, including the Vice-Chancellor.

The Audit Committee is responsible for meeting with the external auditors to discuss audit findings, and with the internal auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's responses and implementation plans. The work of internal audit is guided by an assessment of the key areas of risk in the University's activities. In addition, as part of statutory audit, the external auditors review and test the system of internal control to the extent that they consider necessary to support their audit opinion. The Audit Committee also receive and consider reports from the Higher Education Funding Council for England as they affect the University's business and monitor adherence with the regulatory requirements. They review 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 either lay members of Council or other external members, and the Committee does meet with the external auditors on their own for independent discussions.

Risk Management

The University's Governing Body, the Council, is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. At its meeting in July 2002 the Council approved a comprehensive risk management policy for the University.

The senior management team receives termly reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The senior management team and the Audit Committee also receive regular reports from internal audit and from the Safety Committee, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for

Corporate Governance (continued)

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 amendments to the Register of Key Risks to reflect changes in the level of exposure to recognised risks, and the emergence of new risks, as indicated by the Internal Control reports submitted to Council.

At its meeting in July 2005 Council received a report from the Audit Committee advising that it was able to

issue a statement of full internal control. Audit Committee came to this conclusion on the basis of a report from the internal auditors and reports it had received from senior management throughout the year. Council therefore recognises that the University has effective systems of identifying, evaluating and managing the University's significant risks for the year ended 31 July 2005 and up to the date of approval of the annual report and financial statements.

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

Responsibilities of the University's Council

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

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council has reviewed the University's Financial Forecasts for the period to the 31st July 2009, prepared under the direction of the Funding Council and on the basis of assumptions made as to the continuance of government grants to be given by the Funding Council. On that basis, Council has a reasonable expectation that the University has adequate resources to continue operations for its foreseeable future. For this reason, the financial statements continue to be prepared on the going concern basis.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum of the Funding Council and any other conditions which the Funding Council may from time to time prescribe;

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

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

- definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- a medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of financial results involving variance reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to appraisal and review according to approved levels set by the University Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by Finance and General Purposes Committee; and
- a professional internal audit team whose annual programme is approved by the Audit Committee and is endorsed by the University Council. The internal audit manager provides the University Council with an annual report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

Signed on behalf of the Council
J.C. Foster, Chairman of Council
20 December 2005

Responsibilities of the University's Council (continued)

Members of Council

The Members of Council as at 31 July 2005 were as follows:

| | |
|-----------------------------|--------------------------|
| Sir Michael Atiyah | Professor P. M. Jackson |
| Mr R. H. Bettles | Mr D. M. James |
| Professor W. J. Brammar | Professor I. Lauder |
| His Hon. Judge D. Brunning | Professor K. C. Lee |
| Professor R. G. Burgess | Ms A. Linsell |
| Professor G. R. Campbell | Sir Tom McKillop |
| Dr M. A. Chamberlain | Mr A. M. Mamujee |
| Dr G. A. Cinderby | Dr B. J. Rawlings |
| Professor C. M. V. Clarkson | Professor E. J. Shattock |
| Mr P. J. Cottingham | Mr D. Sissling |
| Professor K. R. Fogelman | Professor D. J. Taylor |
| Mr J. C. Foster | Professor M. P. Thompson |
| Professor J. C. Fothergill | Dr B. E. Towle |
| Professor A. R. Hillman | Mr A. R. Weston |
| Mr C. Higham | Mr D. J. Woodhead |
| Ms F. Hussain | |

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

We have audited the financial statements on pages 10 to 34, which comprise consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (with exception of revaluation of endowment asset investments) and the accounting policies set out in the statement of principal accounting policies.

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

Respective Responsibilities of the University's Council and the auditors

The University's Council are responsible for preparing the financial statements. Our responsibilities as independent auditors are established by statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the Teacher Training Agency.

We also report to you if, in our opinion, the Council Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurers' Report and the corporate governance statement and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the

Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the University (and the group) as at 31 July 2005 and of the group's surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2005 have been applied for the purposes for which they were received;
- in all material respects, income during the year ended 31 July 2005 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

KPMG LLP
20 December 2005
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

Statement of Principal Accounting Policies

1. Accounting Convention

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

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. The consolidated financial statements do not include those of the University of Leicester Students' Union as it is a separate organisation in which the University has no significant influence over policy decisions.

3. Recognition of Income

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

4. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Leicester Pension and Assurance Scheme (PAS). The schemes are defined benefit schemes which are externally invested and contracted out of the State Earnings-Related Pension Scheme. The Funds are valued every three years by actuaries using the projected unit method for USS, and the defined accrued benefit method for PAS, the rates of contribution payable being determined by the trustees on the advice of the actuaries. Pension costs are assessed on the latest actuarial valuations of the Schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. Variations from regular cost are spread over the expected average remaining working lifetime of Members of the Schemes after making allowances for future withdrawals. A small number of staff remain in other pension schemes.

5. Foreign Currencies

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

6. Leases

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

7. Land and Buildings

Land and Buildings are stated at cost. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of 50 years. Leasehold buildings are depreciated over 50 years, or if shorter, the period of the lease.

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.

8. Equipment

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

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

General equipment including vehicles and computer hardware – 3 years

Equipment acquired for specific research projects – 3 years or the normal project life if less than 3 years

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

Statement of Principal Accounting Policies (continued)

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

9. Investments

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

10. Restructuring Costs

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

11. Stocks

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

12. Maintenance of Premises

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

13. Provisions

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

14. Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

15. Cash Flows and Liquid Resources

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

Consolidated Income and Expenditure Account

| | | 2004/05 | 2003/04 |
|--|------|-------------|-------------|
| | Note | £000 | £000 |
| Income | | | |
| Funding Council Grants | 1 | 52,349 | 45,710 |
| Academic Fees and Support Grants | 2 | 40,485 | 39,274 |
| Research Grants and Contracts | 3 | 34,969 | 36,233 |
| Other Operating Income | 4 | 38,561 | 39,181 |
| Endowment Income and Interest Receivable | 5 | 1,092 | 1,050 |
| | | <hr/> | <hr/> |
| Total Income | | 167,456 | 161,448 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| Expenditure | | | |
| Staff Costs | 6 | 103,176 | 98,867 |
| Depreciation | 11 | 4,942 | 2,996 |
| Other Operating Expenses | 7 | 59,052 | 57,320 |
| Interest Payable | 8 | 666 | 790 |
| | | <hr/> | <hr/> |
| Total Expenditure | 10 | 167,836 | 159,973 |
| | | <hr/> <hr/> | <hr/> <hr/> |
| (Deficit) / Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost and Before Tax | | (380) | 1,475 |
| Profit on Disposal of Assets | | 2,193 | 386 |
| | | <hr/> | <hr/> |
| Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost and Disposal of Assets but Before Tax | | 1,813 | 1,861 |
| Taxation | | — | — |
| | | <hr/> | <hr/> |
| Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax | | 1,813 | 1,861 |
| Transfer to Specific Endowments | | (25) | (28) |
| | | <hr/> | <hr/> |
| Surplus for the year retained within General Reserves | 9 | 1,788 | 1,833 |
| | | <hr/> <hr/> | <hr/> <hr/> |

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

Statement of Consolidated Total Recognised Gains and Losses

| | Note | 2004/05 £000 | 2003/04 £000 |
|---|------|-------------------------|-----------------|
| Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax | 9 | 1,788 | 1,833 |
| Appreciation of Endowment Asset Investments | 20 | 640 | 69 |
| Endowment Income Retained for Year | 20 | 25 | 28 |
| New Endowments | 20 | 282 | 261 |
| Total Recognised Gains Relating to the Year | | 2,735 | 2,191 |
| Reconciliation | | 2004/05 £000 | |
| Opening Reserves and Endowments | | 32,479 | |
| Total Recognised Gains for the Year | | 2,735 | |
| Closing Reserves and Endowments | | 35,214 | |

Balance Sheets

| | Note | Consolidated | | University | |
|--|------|----------------|---------------|----------------|---------------|
| | | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Fixed Assets | | | | | |
| Tangible Assets | 11 | 98,674 | 86,969 | 96,233 | 86,616 |
| Investments | 12 | 1 | 1 | 1 | 1 |
| | | <u>98,675</u> | <u>86,970</u> | <u>96,234</u> | <u>86,617</u> |
| Endowment Asset Investments | 13 | 4,958 | 4,011 | 4,958 | 4,011 |
| Current Assets | | | | | |
| Stocks | | 1,126 | 1,120 | 1,126 | 1,120 |
| Debtors | 14 | 19,029 | 20,156 | 22,400 | 20,572 |
| Investments | 15 | 11,248 | 11,153 | 11,248 | 11,153 |
| Cash at Bank and in Hand | 29 | 1,230 | 1,734 | 1,176 | 1,709 |
| | | <u>32,633</u> | <u>34,163</u> | <u>35,950</u> | <u>34,554</u> |
| Creditors: Amounts Falling Due Within One Year | 16 | (36,071) | (31,218) | (35,455) | (31,216) |
| Net Current (Liabilities) / Assets | | <u>(3,438)</u> | <u>2,945</u> | <u>495</u> | <u>3,338</u> |
| Total Assets Less Current Liabilities | | <u>100,195</u> | <u>93,926</u> | <u>101,687</u> | <u>93,966</u> |
| Creditors: Amounts Falling Due After More Than One Year | 17 | (4,665) | (4,840) | (4,665) | (4,840) |
| Provisions for Liabilities and Charges | 18 | (158) | (738) | (158) | (738) |
| Net Assets | | <u>95,372</u> | <u>88,348</u> | <u>96,864</u> | <u>88,388</u> |
| Deferred Capital Grants | 19 | 60,158 | 55,869 | 60,158 | 55,869 |
| Endowments | | | | | |
| Specific | 20 | 4,001 | 3,201 | 4,001 | 3,201 |
| General | 20 | 957 | 810 | 957 | 810 |
| | | <u>4,958</u> | <u>4,011</u> | <u>4,958</u> | <u>4,011</u> |
| Reserves | | | | | |
| General Reserve | 21 | 30,256 | 28,468 | 31,748 | 28,508 |
| Total | | <u>95,372</u> | <u>88,348</u> | <u>96,864</u> | <u>88,388</u> |

Professor R.G. Burgess, Vice-Chancellor
 J.C. Foster, Chairman of the Council
 Dr M.A. Chamberlain, Treasurer
 20 December 2005

Consolidated Cash Flow Statement

| | Note | 2004/05 £000 | 2003/04 £000 |
|---|------|-----------------|-----------------|
| Net Cash Inflow / (Outflow) From Operating Activities | 25 | 3,557 | (4,573) |
| Returns on Investments and Servicing of Finance | 26 | 419 | 189 |
| Taxation | | – | – |
| Capital Expenditure and Financial Investment | 27 | (4,225) | (7,158) |
| Cash (Outflow) before Use of Liquid Resources and Financing | | (249) | (11,542) |
| Management of Liquid Resources | 29 | (95) | 11,754 |
| Financing | 28 | (160) | 79 |
| (Decrease) / Increase in Cash | 29 | (504) | 291 |

Reconciliation of Net Cash Flow to Movement in Net Funds

| | Note | 2004/05 £000 | 2003/04 £000 |
|---|------|-----------------|-----------------|
| (Decrease) / Increase in Cash in the Year | 29 | (504) | 291 |
| Increase / (Decrease) in Short Term Deposits | 29 | 95 | (11,754) |
| Repayment of Debt | 28 | 160 | 3,421 |
| New Loan Capital Drawdown | 28 | – | (3,500) |
| Change in Net Funds Resulting from Cash Flows | | (249) | (11,542) |
| Net Funds at 1 August | 29 | 4,386 | 15,928 |
| Net Funds at 31 July | 29 | 4,137 | 4,386 |

Notes to the Financial Statements

Note 1 Funding Council Grants

| | 2004/05 | 2003/04 |
|---|---------------|---------------|
| | £000 | £000 |
| HEFCE: | | |
| Recurrent Grant: | | |
| Basic Grant | 45,638 | 41,262 |
| Special Initiatives | 2,673 | 1,774 |
| Buildings: Deferred Capital Grants (<i>note 19</i>) | 1,090 | 768 |
| Equipment: Deferred Capital Grants (<i>note 19</i>) | 885 | – |
| | <u>50,286</u> | <u>43,804</u> |
| Teacher Training Agency: | | |
| Recurrent | 1,903 | 1,645 |
| Other | 160 | 261 |
| | <u>52,349</u> | <u>45,710</u> |

Note 2 Academic Fees and Support Grants

| | 2004/05 | 2003/04 |
|--|---------------|---------------|
| | £000 | £000 |
| Full-Time Course Fees: | | |
| From Home and European Union Students | 11,581 | 11,569 |
| From Students Outside the European Union | 14,692 | 13,542 |
| Part-Time Course Fees: | | |
| From Home and European Union Students | 7,964 | 7,349 |
| From Students Outside the European Union | 5,553 | 6,228 |
| Research Training Support Grants | 695 | 586 |
| | <u>40,485</u> | <u>39,274</u> |

Note 3 Research Grants and Contracts

| | 2004/05 | 2003/04 |
|--|---------------|---------------|
| | £000 | £000 |
| Research Councils | 14,328 | 13,979 |
| UK Based Charities | 9,105 | 9,262 |
| UK Government, Health and Hospital Authorities | 5,898 | 7,546 |
| UK Industry, Commerce and Public Corporations | 2,854 | 2,603 |
| EU Government Bodies | 1,312 | 1,203 |
| EU Other | 408 | 417 |
| Other Overseas | 865 | 948 |
| Other Sources | 199 | 275 |
| | <u>34,969</u> | <u>36,233</u> |

This includes income of £1,448,000 (2003/04-£1,207,000) from deferred capital grants.

Note 4 Other Operating Income

| | 2004/05 | 2003/04 |
|--------------------------------------|---------------|---------------|
| | £000 | £000 |
| Residences, Catering and Conferences | 15,100 | 15,468 |
| Health Authority Funded Posts | 11,585 | 11,830 |
| Other Services Rendered | 3,634 | 3,473 |
| Bookshops | 2,349 | 2,555 |
| Other Income | 5,893 | 5,855 |
| | <hr/> | <hr/> |
| | 38,561 | 39,181 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 5 Endowment Income and Interest Receivable

| | 2004/05 | 2003/04 |
|--|--------------|--------------|
| | £000 | £000 |
| Income from Current Asset Investments | 926 | 895 |
| Specific Endowments (<i>note 20</i>) | 133 | 123 |
| General Endowments (<i>note 20</i>) | 33 | 32 |
| | <hr/> | <hr/> |
| | 1,092 | 1,050 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements (continued)

| Note 6 Staff | 2004/05 | 2003/04 |
|---|----------------|----------------|
| | £000 | £000 |
| Staff Costs: | | |
| Wages and Salaries | 84,880 | 81,361 |
| Social Security Costs | 7,275 | 6,993 |
| Other Pension Costs | 11,021 | 10,513 |
| | <u>103,176</u> | <u>98,867</u> |
| Emoluments of the Vice-Chancellor: | | |
| Salary and Benefits | 168 | 150 |
| Employer's Pension Contributions | 21 | 19 |
| | <u>189</u> | <u>169</u> |

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

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

| | 2004/05 | 2003/04 |
|---------------------|----------------|----------------|
| £70,000 - £80,000 | 19 | 26 |
| £80,001 - £90,000 | 19 | 20 |
| £90,001 - £100,000 | 9 | 12 |
| £100,001 - £110,000 | 13 | 13 |
| £110,001 - £120,000 | 10 | 10 |
| £120,001 - £130,000 | 11 | 6 |
| £130,001 - £140,000 | 4 | 9 |
| £140,001 - £150,000 | 3 | 5 |
| £150,001 - £160,000 | 7 | 3 |
| £160,001 - £170,000 | 4 | 1 |
| £170,001 - £180,000 | - | 2 |
| £180,001 - £190,000 | 1 | - |
| £190,001 - £200,000 | 2 | - |

No payments were made by the University in respect of compensation for loss of office to members of staff earning in excess of £70,000 per annum.

| Staff Numbers (full-time equivalent) by major category: | 2004/05 | 2003/04 |
|--|----------------|----------------|
| Academic and Clinical | 726 | 718 |
| Research and Analogous | 421 | 461 |
| Administration, Library, Computer and Other Related | 399 | 363 |
| Technical | 304 | 321 |
| Clerical, Manual and Ancillary | 1,034 | 1,042 |
| | <u>2,884</u> | <u>2,905</u> |

Note 7 Other Operating Expenses

| | 2004/05 | 2003/04 |
|--|---------------|---------------|
| | £000 | £000 |
| Equipment and Furniture | 7,143 | 6,289 |
| Maintenance and Minor Works | 6,891 | 7,555 |
| Energy, Fuel and Water | 3,342 | 2,529 |
| Rent, Rates and Insurance | 3,969 | 3,619 |
| Books, Periodicals and General Publications | 3,997 | 4,193 |
| Stationery, Printing, Postage and Telephone | 2,250 | 2,451 |
| Consumables and Laboratory Expenditure | 4,337 | 4,467 |
| Staff Support and Travel | 9,217 | 8,866 |
| Pensions and Premature Retirement Costs | 533 | 283 |
| Students' Union Grant | 577 | 565 |
| Fellowships, Scholarships and Prizes | 3,072 | 2,744 |
| Catering Supplies | 1,321 | 1,527 |
| External Auditors' Remuneration for Audit Work | 31 | 26 |
| External Auditors' Remuneration for Non Audit Work | 8 | 7 |
| Internal Auditors' Remuneration for Audit Work | 77 | 75 |
| Other Expenditure | 12,287 | 12,124 |
| | <hr/> | <hr/> |
| | 59,052 | 57,320 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 8 Interest Payable

| | 2004/05 | 2003/04 |
|--|-------------|-------------|
| | £000 | £000 |
| Mortgage Loans: | | |
| Repayable Within Five Years, Not by instalments | 183 | 47 |
| Repayable Wholly or Partly in More Than Five Years | 483 | 743 |
| | <hr/> | <hr/> |
| | 666 | 790 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements (continued)

Note 9 Surplus on Continuing Operations for the Year

The Surplus on Continuing Operations for the Year is Made Up as Follows:

| | 2004/05 £000 | 2003/04 £000 |
|---|-----------------|-----------------|
| University's Surplus for the Year | 2,783 | 1,856 |
| Surplus Generated by the Subsidiary Undertakings and transferred to the University under Deed of Covenant | 457 | 17 |
| Effect of difference in accounting treatment between University and consolidated financial statements | (1,585) | – |
| Surplus / (Deficit) made by Subsidiary Undertakings | 133 | (40) |
| Total | <u>1,788</u> | <u>1,833</u> |

Note 10 Analysis of 2004/05 Expenditure by Activity

| | Staff Costs £000 | Depreciation £000 | Other Operating | | Total £000 |
|--|---------------------|----------------------|------------------|--------------------------|----------------|
| | | | Expenses £000 | Interest Payable £000 | |
| Academic Departments | 61,882 | 1,165 | 15,782 | – | 78,829 |
| Academic Services | 5,064 | 247 | 3,310 | – | 8,621 |
| Research Grants and Contracts | 17,220 | 1,449 | 10,110 | – | 28,779 |
| Residences and Catering | 4,289 | 528 | 9,087 | 483 | 14,387 |
| Premises | 4,486 | 1,544 | 9,137 | – | 15,167 |
| Administration and Central Services | 8,201 | 9 | 9,407 | – | 17,617 |
| Other Expenditure | 2,034 | – | 2,219 | 183 | 4,436 |
| Total per Income and Expenditure Account | <u>103,176</u> | <u>4,942</u> | <u>59,052</u> | <u>666</u> | <u>167,836</u> |

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

Note 11 Tangible Assets

| | Land and Buildings | | Equipment | Total |
|-------------------------|--------------------|----------------|---------------|----------------|
| | Freehold | Long Leasehold | | |
| Consolidated | £000 | £000 | £000 | £000 |
| Cost | | | | |
| At 1 August 2004 | 83,786 | 10,283 | 19,441 | 113,510 |
| Additions | 11,860 | 71 | 5,180 | 17,111 |
| Disposals | (813) | – | – | (813) |
| At 31 July 2005 | 94,833 | 10,354 | 24,621 | 129,808 |
| Depreciation | | | | |
| At 1 August 2004 | 7,393 | 1,115 | 18,033 | 26,541 |
| Charge for the year | 1,865 | 207 | 2,870 | 4,942 |
| Eliminated on Disposals | (349) | – | – | (349) |
| At 31 July 2005 | 8,909 | 1,322 | 20,903 | 31,134 |
| Net Book Value | | | | |
| At 1 August 2004 | 76,393 | 9,168 | 1,408 | 86,969 |
| At 31 July 2005 | 85,924 | 9,032 | 3,718 | 98,674 |
| University | | | | |
| Cost | | | | |
| At 1 August 2004 | 83,433 | 10,283 | 19,441 | 113,157 |
| Additions | 9,772 | 71 | 5,180 | 15,023 |
| Disposals | (813) | – | – | (813) |
| At 31 July 2005 | 92,392 | 10,354 | 24,621 | 127,367 |
| Depreciation | | | | |
| At 1 August 2004 | 7,393 | 1,115 | 18,033 | 26,541 |
| Charge for the year | 1,865 | 207 | 2,870 | 4,942 |
| Eliminated on Disposals | (349) | – | – | (349) |
| At 31 July 2005 | 8,909 | 1,322 | 20,903 | 31,134 |
| Net Book Value | | | | |
| At 1 August 2004 | 76,040 | 9,168 | 1,408 | 86,616 |
| At 31 July 2005 | 83,483 | 9,032 | 3,718 | 96,233 |

Land and buildings includes an amount of £9,229,384 in respect of assets under construction (2004 - £24,573,028). These assets are not depreciated until brought into use.

Land and buildings with a net book value of £41,700,363 and cost of £44,443,021 have been funded from Treasury sources: should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the HEFCE.

Consolidated and University
£000

The depreciation charge has been funded by:

| | |
|---|--------------|
| Deferred Capital Grants Released (<i>note 19</i>) | 3,743 |
| General Income | 1,199 |
| | <u>4,942</u> |

Notes to the Financial Statements (continued)

Note 12 Investments

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

Subsidiary Undertakings

| <i>Name</i> | <i>% Shareholding</i> | <i>Principal Activity</i> |
|--|-----------------------|---|
| Leicester Academic Library Services Limited | 100% | Provision of library services |
| Lucent Limited (ceased trading on 31 July 2004) | 100% | Provision of research and development, training and associated work |

The consolidated financial statements incorporate the activities of Leicester Academic Library Services Limited. The activities of Lucent Limited are not material and are excluded from the consolidation.

Associated Undertakings

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

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

Note 13 Endowment Asset Investments

| | Consolidated | |
|----------------------------------|---------------------|---------------------|
| | 2005 | 2004 |
| | £000 | £000 |
| Balance at 1 August | 4,011 | 3,653 |
| Additions: Capital | 282 | 261 |
| Income | 25 | 27 |
| Appreciation on Revaluation | 640 | 70 |
| | <u>4,958</u> | <u>4,011</u> |
| Balance at 31 July | <u><u>4,958</u></u> | <u><u>4,011</u></u> |
| Analysis of investments: | | |
| Listed on London Stock Exchange: | | |
| Fixed Interest Stocks | 474 | 574 |
| Equities | 3,568 | 2,573 |
| Not Listed: | | |
| Equities | 168 | 157 |
| Cash Held on Deposit | 748 | 707 |
| | <u>4,958</u> | <u>4,011</u> |
| | <u><u>4,958</u></u> | <u><u>4,011</u></u> |

Note 14 Debtors

| | Consolidated | | University | |
|---|----------------------|----------------------|----------------------|----------------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 |
| Amounts Falling Due Within One Year: | | | | |
| Research Grants and Contracts | 7,260 | 7,701 | 7,260 | 7,701 |
| Amount owed by Subsidiary Undertaking | – | – | 1,959 | 416 |
| Other Debtors and Prepayments | 11,769 | 12,455 | 11,152 | 12,455 |
| Amounts Falling Due After More Than One Year: | | | | |
| Amount owed by Subsidiary Undertaking | – | – | 2,029 | – |
| | <u>19,029</u> | <u>20,156</u> | <u>22,400</u> | <u>20,572</u> |
| | <u><u>19,029</u></u> | <u><u>20,156</u></u> | <u><u>22,400</u></u> | <u><u>20,572</u></u> |

Note 15 Current Asset Investments

| | Consolidated | |
|------------------------------------|----------------------|----------------------|
| | 2005 | 2004 |
| | £000 | £000 |
| Fixed Interest Stocks | 631 | 694 |
| Equities | 2,191 | 2,417 |
| Bank and Building Society Deposits | 8,426 | 8,042 |
| | <u>11,248</u> | <u>11,153</u> |
| | <u><u>11,248</u></u> | <u><u>11,153</u></u> |

Notes to the Financial Statements (continued)

Note 16 Creditors: Amounts Falling Due Within One Year

| | Consolidated | | University | |
|---------------------------------------|---------------|---------------|---------------|---------------|
| | 2005 £000 | 2004 £000 | 2005 £000 | 2004 £000 |
| Mortgages and Other Loans | 3,676 | 3,661 | 3,676 | 3,661 |
| Payments Received on Account | 14,342 | 11,638 | 14,342 | 11,638 |
| Creditors | 10,988 | 9,372 | 10,372 | 9,370 |
| Social Security and Other Tax Payable | 2,756 | 2,656 | 2,756 | 2,656 |
| Accruals and Deferred Income | 4,309 | 3,891 | 4,309 | 3,891 |
| | <u>36,071</u> | <u>31,218</u> | <u>35,455</u> | <u>31,216</u> |

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

| | Consolidated | |
|-------------------|--------------|--------------|
| | 2005 £000 | 2004 £000 |
| Mortgages: | | |
| Repayable by 2019 | <u>4,665</u> | <u>4,840</u> |

The mortgage is secured on a portion of freehold land and buildings of the University and is repayable in instalments over periods up to 2019. Interest is payable at fixed rates.

Bank loans and mortgages are repayable as follows:

| | Consolidated | |
|--|--------------|--------------|
| | 2005 £000 | 2004 £000 |
| In one year or less (<i>note 16</i>) | 3,676 | 3,661 |
| Between one and two years | 191 | 176 |
| Between two and five years | 683 | 626 |
| In five or more years | 3,791 | 4,038 |
| | <u>8,341</u> | <u>8,501</u> |

Note 18 Provisions for Liabilities and Charges

| | Consolidated |
|---|---------------------|
| | 2005 |
| | £000 |
| Pensions: | |
| Balance at 1 August 2004 | 738 |
| Expenditure in the Year | (682) |
| Transferred from Income and Expenditure Account | 102 |
| | <hr/> |
| Balance at 31 July 2005 | 158 |
| | <hr/> <hr/> |

Included within provisions are amounts payable in respect of staff who have elected to take early retirement.

Note 19 Deferred Capital Grants

| | Funding Council | Other Grants & Benefactions | Total |
|------------------------------------|------------------------|--|--------------|
| | £000 | £000 | £000 |
| At 1 August 2004 | | | |
| Buildings | 39,735 | 15,182 | 54,917 |
| Equipment | – | 952 | 952 |
| | <hr/> | <hr/> | <hr/> |
| Total | 39,735 | 16,134 | 55,869 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Cash Received and Receivable | | | |
| Buildings | 3,056 | 415 | 3,471 |
| Equipment | 2,657 | 1,904 | 4,561 |
| | <hr/> | <hr/> | <hr/> |
| Total | 5,713 | 2,319 | 8,032 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| Released to Income and Expenditure | | | |
| Buildings | 1,090 | 320 | 1,410 |
| Equipment | 885 | 1,448 | 2,333 |
| | <hr/> | <hr/> | <hr/> |
| Total | 1,975 | 1,768 | 3,743 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |
| At 31 July 2005 | | | |
| Buildings | 41,701 | 15,277 | 56,978 |
| Equipment | 1,772 | 1,408 | 3,180 |
| | <hr/> | <hr/> | <hr/> |
| Total | 43,473 | 16,685 | 60,158 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

Notes to the Financial Statements (continued)

Note 20 Endowments

| | Specific £000 | Consolidated General £000 | Total £000 |
|---|------------------|---------------------------------|---------------|
| At 1 August 2004 | 3,201 | 810 | 4,011 |
| Additions | 282 | - | 282 |
| Appreciation of Endowment Asset Investments | 493 | 147 | 640 |
| Income for Year (note 5) | 133 | 33 | 166 |
| Expenditure for Year | (108) | (33) | (141) |
| At 31 July 2005 | 4,001 | 957 | 4,958 |

Funds Exceeding £30,000

| Specific | 2005 £000 | 2004 £000 |
|---|--------------|--------------|
| Ulverscroft Endowment | 380 | 390 |
| Church Langton Fund | 187 | 200 |
| Frears Endowment | 285 | 281 |
| Stead and Simpson Fund | 179 | 183 |
| Spire Endowment | 113 | 118 |
| Hickman Bequest | 42 | 43 |
| Frank May Funds | 98 | 99 |
| Faire and Allaway Fund | 87 | 96 |
| Burton Holocaust Centre | 217 | 218 |
| Ellis Foundation | 55 | 56 |
| Street Travel Award | 38 | 39 |
| Medical Service Award | 42 | 41 |
| Bennett and Family Fund | 36 | 37 |
| Law Development Fund | 59 | 59 |
| Marc Fitch Fund | 82 | 83 |
| McKay Memorial Fund | 40 | 40 |
| Redfearn Memorial Fund | 38 | 37 |
| Janner Travel Fund | 33 | 33 |
| Sylvester-Bradley Award | 33 | 33 |
| Richard Attenborough Centre Fund | 216 | 214 |
| H.S. Bennett | 32 | 32 |
| Wathes Centenary Scholarship Fund | 453 | 203 |
| Hoskins-Duffield Fund | 61 | 61 |
| DF Bursary Fund | 33 | 32 |
| Other Endowments | 748 | 724 |
| Movement In Market Value On Above Funds | 414 | (151) |
| | 4,001 | 3,201 |
| General | | |
| Robert Rowley Fund | 137 | 142 |
| Lewis Lilley Fund | 207 | 213 |
| Simpson Gee Fund | 125 | 129 |
| Tyler Chair | 118 | 121 |
| Bennett Lectureship | 59 | 61 |
| Norton Scholarship | 45 | 46 |
| Other Endowments | 44 | 44 |
| Movement In Market Value On Above Funds | 222 | 54 |
| | 957 | 810 |

Note 21 General Reserve

| | Consolidated | University |
|--|---------------------|-------------------|
| | £000 | £000 |
| Surplus after depreciation of fixed assets at cost and tax | 1,788 | 3,240 |
| Balance at 1 August 2004 | 28,468 | 28,508 |
| Balance at 31 July 2005 | 30,256 | 31,748 |

Note 22 Capital Commitments

| | Consolidated | | University | |
|--|---------------------|---------------|-------------------|---------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 |
| Commitments Contracted at 31 July | 7,569 | 4,057 | 6,285 | 2,472 |
| Authorised but Not Contracted at 31 July | 54,417 | 38,037 | 30,183 | 24,278 |
| | <u>61,986</u> | <u>42,094</u> | <u>36,468</u> | <u>26,750</u> |

Note 23 Contingent Liability

| | Consolidated | |
|--|---------------------|-------------|
| | 2005 | 2004 |
| | £000 | £000 |
| Bank Guarantee in Respect of Subsidiary Company (Lucent Limited) | 75 | 75 |
| | <u>75</u> | <u>75</u> |

Note 24 Lease Obligations

At 31 July, the University had annual commitments under non-cancellable operating leases as follows:

| | Consolidated | | University | |
|----------------------------|---------------------|-------------|-------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | £000 | £000 | £000 | £000 |
| Leases expiring: | | | | |
| Within one year | – | – | 3 | – |
| Between two and five years | 226 | 226 | 226 | 226 |
| Over five years | – | – | – | – |
| | <u>226</u> | <u>226</u> | <u>229</u> | <u>226</u> |

The University has no finance lease commitments.

Notes to the Financial Statements (continued)

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

| | 2004/05 | 2003/04 |
|---|-------------|-------------|
| | £000 | £000 |
| Surplus Before Tax | 1,788 | 1,833 |
| Depreciation (<i>note 11</i>) | 4,942 | 2,996 |
| Profit on Disposal of Assets | (2,193) | (386) |
| Donated Assets | – | (90) |
| Deferred Capital Grants Released to Income (<i>note 19</i>) | (3,743) | (2,076) |
| Investment Income (<i>note 5</i>) | (1,092) | (1,050) |
| Interest Payable | 666 | 790 |
| (Increase) in Stocks | (6) | (23) |
| Decrease / (Increase) in Debtors | 234 | (4,179) |
| Increase / (Decrease) in Creditors | 3,541 | (1,677) |
| (Decrease) in Provisions | (580) | (711) |
| | <hr/> | <hr/> |
| Net Cash Inflow / (Outflow) From Operating Activities | 3,557 | (4,573) |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 26 Returns on Investments and Servicing of Finance

| | 2004/05 | 2003/04 |
|---|-------------|-------------|
| | £000 | £000 |
| Income from Endowments (<i>note 20</i>) | 166 | 155 |
| Income from Short Term Investments | 886 | 859 |
| Interest Paid | (633) | (825) |
| | <hr/> | <hr/> |
| | 419 | 189 |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 27 Capital Expenditure and Financial Investment

| | 2004/05 | 2003/04 |
|---|-------------|-------------|
| | £000 | £000 |
| Tangible Assets Acquired (Other than Leased Equipment) | (16,645) | (20,382) |
| Proceeds from Tangible Asset Disposal | 2,657 | 389 |
| Endowment Asset Investments Acquired (<i>note 13</i>) | (282) | (261) |
| | <hr/> | <hr/> |
| Total Fixed and Endowment Asset Investments Acquired | (14,270) | (20,254) |
| Deferred Capital Grants Received | 9,763 | 12,835 |
| Endowments Received (<i>note 20</i>) | 282 | 261 |
| | <hr/> | <hr/> |
| | (4,225) | (7,158) |
| | <hr/> <hr/> | <hr/> <hr/> |

Note 28 Analysis of Changes in Consolidated Financing During the Year

| | Mortgages & Loans £000 |
|---------------------------------|---|
| Balances at 1 August 2003 | 8,422 |
| Capital Repayments | (3,421) |
| New Loan Capital Drawdown | <u>3,500</u> |
| Balances at 31 July 2004 | 8,501 |
| Capital Repayments | (160) |
| New Loan Capital Drawdown | <u>—</u> |
| Balances at 31 July 2005 | <u><u>8,341</u></u> |

Note 29 Analysis of Changes in Net Funds

| | At 1 August £000 | Cash Flows £000 | Other Changes £000 | At 31 July £000 |
|--------------------------|---------------------|--------------------|-----------------------|---------------------|
| Cash at Bank and in Hand | 1,734 | (504) | — | 1,230 |
| Short Term Deposits | 11,153 | 95 | — | 11,248 |
| Debt due within one year | (3,661) | 160 | (175) | (3,676) |
| Debt due after one year | (4,840) | — | 175 | (4,665) |
| | <u>4,386</u> | <u>(249)</u> | <u>—</u> | <u>4,137</u> |

Notes to the Financial Statements (continued)

Note 30 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).

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the University was £7,105,000 (2004: £6,793,000). This includes £593,000 (2004: £567,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

The USS is a multi-employer scheme where the share of the assets and liabilities applicable to each employer is not identified. The University will therefore account for its pension costs on a defined contribution basis as permitted by FRS 17.

Leicester Pension and Assurance Scheme (PAS)

The PAS is a defined benefit scheme and was closed to new entrants on 31 July 2003. The total contribution made for the year ended 31 July 2005 was £3,863,000 of which employers contributions totalled £2,940,000 and employees contributions totalled £923,000. The agreed contribution rates from 1 August 2005 are 28.7% for employers and 6.35% for employees.

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

| | |
|--|-----------------------------|
| Latest actuarial valuation | 31 July 2004 |
| Actuarial method | Attained age |
| Investment returns per annum | 5.25 - 7.25% |
| Pension increases per annum | 3.0% |
| Salary scale increases per annum | 2004: 7.5%, thereafter 4.0% |
| Market value of assets at date of last valuation | £54,380m |
| Proportion of members' accrued benefits covered by the actuarial value of the assets | 77% |

Note 30 Pension Schemes (continued)

The following information is based upon the full actuarial valuation at 31 July 2004, updated to 31 July 2005 by a qualified independent actuary.

| | 2005 | 2004 | 2003 |
|---|-------|-------|-------|
| Rate of increase in salaries | 4.30% | 4.50% | 4.20% |
| Rate of increase in pensions in payment | 2.80% | 3.00% | 2.70% |
| Discount rate | 5.25% | 5.70% | 5.47% |
| Inflation assumption | 2.80% | 3.00% | 2.70% |

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

| | Rate of return expected at 31 July 2005 | Value at 31 July 2005 £000 | Rate of return expected at 31 July 2004 | Value at 31 July 2004 £000 | Rate of return expected at 31 July 2003 | Value at 31 July 2003 £000 |
|----------|---|----------------------------|---|----------------------------|---|----------------------------|
| Equities | 7.00% | 50,773 | 7.00% | 40,415 | 7.75% | 38,063 |
| Bonds | 5.25% | 15,474 | 5.70% | 12,810 | 5.47% | 8,693 |
| Cash | 4.75% | 2,061 | 4.75% | 1,155 | 4.00% | 2,153 |
| | | <u>68,308</u> | | <u>54,380</u> | | <u>48,909</u> |

The following amounts at 31 July 2005 were measured in accordance with the requirements of FRS 17:

| | 2005 £000 | 2004 £000 | 2003 £000 |
|--|-----------------|-----------------|-----------------|
| Total market value of assets | 68,308 | 54,380 | 48,909 |
| Present value of scheme liabilities | (95,714) | (76,516) | (73,455) |
| (Deficit) in the scheme – Net pension liability | <u>(27,406)</u> | <u>(22,136)</u> | <u>(24,546)</u> |

If the previously stated amounts had been recognised in the financial statements, the University's net assets and general reserve at 31 July 2005 would be as follows:

| | 2005 £000 | 2004 £000 | 2003 £000 |
|--|---------------|---------------|---------------|
| Net assets excluding pension liability | 95,372 | 88,348 | 72,270 |
| Pension liability | (27,406) | (22,136) | (24,546) |
| Net assets including pension liability | <u>67,966</u> | <u>66,212</u> | <u>47,724</u> |
| General reserve excluding pension liability | 30,256 | 28,468 | 26,635 |
| Pension reserve | (27,406) | (22,136) | (24,546) |
| General reserve including pension liability | <u>2,850</u> | <u>6,332</u> | <u>2,089</u> |

Notes to the Financial Statements (continued)

Note 30 Pension Schemes (continued)

Additionally, if the pension costs had been recognised in accordance with FRS 17, the following components of the pensions charge would have been recognised in the Income and Expenditure Account and Statement of Recognised Gains and Losses for the year ended 31 July 2005:

| | 2004/05 | 2003/04 |
|--|-----------------|-----------------|
| | £000 | £000 |
| Analysis of amounts charged to Income and Expenditure Account: | | |
| Current service cost | (2,032) | (2,499) |
| Past service cost | – | – |
| Financing: | | |
| – expected return on pension scheme assets | 3,665 | 3,514 |
| – interest on expected scheme liabilities | (4,610) | (4,050) |
| Net return | <u>(2,977)</u> | <u>(3,035)</u> |
| Analysis of amounts recognised in Statement of Total Recognised Gains and Losses: | | |
| Actual return less expected return on pension scheme assets | 8,669 | (469) |
| Experience gains and losses arising on scheme liabilities | 24 | (615) |
| Restatement of assets at 31 July 2002 | – | (616) |
| Changes in assumptions underlying the present value of scheme liabilities | (13,926) | 3,423 |
| Total actuarial (loss) / gain recognised | <u>(5,233)</u> | <u>1,723</u> |
| The movement in the scheme's deficit during the year is made up as follows: | | |
| | 2005 | 2004 |
| | £000 | £000 |
| Deficit on scheme at 1 August | (22,136) | (24,546) |
| Movement in year: | | |
| – current service cost | (2,032) | (2,499) |
| – contributions | 2,940 | 3,722 |
| – past service costs | – | – |
| – other finance loss | (945) | (536) |
| – actuarial (loss) / gain | (5,233) | 1,723 |
| Deficit on scheme at 31 July | <u>(27,406)</u> | <u>(22,136)</u> |

The full actuarial valuation at 31 July 2005 showed an increase in the deficit from £22,136 to £27,406. There have been no improvements in benefits and the contributions have not been increased during 2004/05. The rate of contribution will be increased on the 1st August 2005 to 28.7%.

Note 30 Pension Schemes (continued)

The gains and losses for the year ended 31 July 2005 were as follows:

| | 2005 | 2004 | 2003 | 2002 |
|---|---------|--------|---------|----------|
| Difference between the expected and actual return on scheme assets: | | | | |
| Amount (£000) | 8,669 | (469) | 318 | 13,363 |
| Percentage of scheme assets | 12.7% | (0.9)% | 0.7% | 30.8% |
| Experience gains and losses on scheme liabilities: | | | | |
| Amount (£000) | 24 | (615) | 556 | 50 |
| Percentage of the present value of scheme liabilities | 0.0% | (0.8)% | 0.8% | 0.1% |
| Total amount recognised in the statement of total recognised gains and losses: | | | | |
| Amount (£000) | (5,233) | 1,723 | (7,788) | (13,963) |
| Percentage of the present value of scheme liabilities | (5.5)% | 2.3% | (10.6)% | (23.3)% |

Note 31 Related Party Transactions

Due to the nature of the University's operations and the 32 members of Council being drawn from local, public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arms length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'.

During the year the University charged its associated company UK HEP Limited £34,441 for the provision of accounting services.

At 31 July 2005 the University had outstanding balances on loans to the following companies in which it has a shareholding or interest:

| | |
|---|---------|
| Perpetuity Research and Consultancy International Limited | £75,000 |
| Pulsonix Limited | £20,000 |

Notes to the Financial Statements (continued)

Note 32 Post Balance Sheet Events

Since 31 July 2005, long term loan funding of £33 million has been agreed with Barclays Bank to fund the costs of the Villiers Hall student residences redevelopment project (now called The New Hall) whose costs are £23 million, and to part-fund to the extent of £10 million the costs of the Library redevelopment project. Barclays Bank also agreed to revise the terms of the £10 million revolving loan facility first agreed in March 2004, which is used as a standby cash flow loan.

Note 33 Access Funds

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

| | 2004/05 £000 | 2003/04 £000 |
|--|------------------|-----------------|
| Income | | |
| HEFCE Grants | 451 | 423 |
| Interest | <u>2</u> | <u>2</u> |
| | <u>453</u> | <u>425</u> |
| Expenditure | | |
| Expenditure in Relation to Eligible Students | 417 | 422 |
| Audit Fees | <u>1</u> | <u>1</u> |
| | 418 | 423 |
| Expenditure Met by University | <u>—</u> | <u>—</u> |
| | <u>418</u> | <u>423</u> |
| Balance at 31 July | <u><u>35</u></u> | <u><u>2</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.

Note 34 Teacher Training Agency Funds

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

| | ITT Training Bursaries 2004/05 £000 | Secondary Shortage Subjects 2004/05 £000 |
|---|--|---|
| Cash received | <u>2,713</u> | <u>28</u> |
| Bursaries paid | 2,289 | 6 |
| Administrative costs and training grant | 208 | 3 |
| VAT on administrative costs | <u>8</u> | <u>—</u> |
| | 2,505 | 9 |
| Repayable to TTA | <u><u>208</u></u> | <u><u>19</u></u> |

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

Five Year Summary Accounts

Income and Expenditure Account

| | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
|---|----------------|----------------|----------------|----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Income | | | | | |
| Funding Council Grants | 40,366 | 43,482 | 44,424 | 45,710 | 52,349 |
| Academic Fees and Support Grants | 27,584 | 31,816 | 36,616 | 39,274 | 40,485 |
| Research Grants and Contracts | 33,123 | 36,044 | 36,970 | 36,233 | 34,969 |
| Other Operating Income | 30,177 | 33,154 | 35,812 | 39,181 | 38,561 |
| Endowment Income and Interest | 1,384 | 1,346 | 1,234 | 1,050 | 1,092 |
| Profit on Disposal of Assets | – | – | – | 386 | 2,193 |
| Total Income | <u>132,634</u> | <u>145,842</u> | <u>155,056</u> | <u>161,834</u> | <u>169,649</u> |
| Expenditure | | | | | |
| Staff Costs | 79,871 | 84,422 | 90,917 | 98,867 | 103,176 |
| Depreciation | 2,980 | 3,625 | 3,719 | 2,996 | 4,942 |
| Other Operating Expenses | 48,626 | 53,048 | 57,144 | 57,320 | 59,052 |
| Interest Payable | 1,255 | 1,212 | 819 | 790 | 666 |
| Total Expenditure | <u>132,732</u> | <u>142,307</u> | <u>152,599</u> | <u>159,973</u> | <u>167,836</u> |
| Transfer to Specific Endowments | – | – | – | 28 | 25 |
| Surplus / (Deficit) for the year | <u>(98)</u> | <u>3,535</u> | <u>2,457</u> | <u>1,833</u> | <u>1,788</u> |

Balance sheet

| | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| Fixed Assets | 55,489 | 59,900 | 69,586 | 86,970 | 98,675 |
| Endowment Asset Investments | 4,010 | 3,606 | 3,653 | 4,011 | 4,958 |
| Net Current Assets / (Liabilities) | 9,679 | 8,248 | 8,623 | 2,945 | (3,438) |
| Creditors: Amounts Due After One Year | (11,244) | (8,422) | (8,143) | (4,840) | (4,665) |
| Provisions for Liabilities and Charges | (471) | (463) | (1,449) | (738) | (158) |
| Total Net Assets | <u>57,463</u> | <u>62,869</u> | <u>72,270</u> | <u>88,348</u> | <u>95,372</u> |
| Represented By: | | | | | |
| Deferred Capital Grants | 32,810 | 35,085 | 41,982 | 55,869 | 60,158 |
| Endowments | 4,010 | 3,606 | 3,653 | 4,011 | 4,958 |
| General Reserves | 20,643 | 24,178 | 26,635 | 28,468 | 30,256 |
| Total Funds | <u>57,463</u> | <u>62,869</u> | <u>72,270</u> | <u>88,348</u> | <u>95,372</u> |

Financial Statistics

Sources of Income

| % of Total Income | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 |
|--|---------------|---------------|---------------|---------------|---------------|
| Grants from Funding Councils (HEFCE and TTA) | 30.4% | 29.8% | 28.7% | 28.2% | 30.8% |
| Academic Fees and Support Grants | 20.8% | 21.8% | 23.6% | 24.3% | 23.9% |
| Research Grants and Contracts | 25.0% | 24.7% | 23.8% | 22.4% | 20.6% |
| Residences, Catering and Conferences | 8.5% | 8.6% | 8.5% | 9.6% | 8.9% |
| Other Income | 15.3% | 15.1% | 15.4% | 15.5% | 15.8% |
| Total Income | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Analysis of Expenditure

| % of Total Expenditure | | | | | |
|--|---------------|---------------|---------------|---------------|---------------|
| Staff Costs | 60.3% | 59.3% | 59.6% | 61.8% | 61.5% |
| Depreciation | 2.2% | 2.5% | 2.4% | 1.9% | 2.9% |
| Other Operating Expenses | 36.6% | 37.3% | 37.5% | 35.8% | 35.2% |
| Interest Payable | 0.9% | 0.9% | 0.5% | 0.5% | 0.4% |
| Total Expenditure | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Surplus/(Deficit) for the Year as a % of Total Income | (0.1)% | 2.4% | 1.6% | 1.1% | 1.1% |

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> | 59 | 64 | 66 | 67 | 68 |
| Days Ratio of Net Current Assets / (Liabilities) to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i> | 27 | 21 | 21 | 7 | (7) |
| % Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i> | 52 | 34 | 30 | 17 | 15 |

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> | 73 | 82 | 82 | 41 | 35 |
| Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i> | 1.4 | 1.3 | 1.3 | 1.1 | 0.9 |
| Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i> | 60 | 44 | 42 | 64 | 60 |