

Financial Statements

2005 - 2006

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Research that Changes the World

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University of
Leicester

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Treasurer's Report for the Year Ended 31 July 2006

Format of the Accounts

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

The accounts have been prepared early this year, for approval by Council before the end of November, to meet the new timetable for universities being introduced by the Higher Education Funding Council for England (HEFCE) from 2007.

The Financial Statements this year incorporate fully the Accounting Standard for Pensions (FRS 17) in so far as it relates to the University's own defined benefit pension scheme for employees other than academic staff. This restatement together with other significant items in both income and expenditure and balance sheet are commented on below in order to help an understanding of the year's financial outcome.

Income and Expenditure Account

The outturn for the year was an overall deficit of £1,980k; the forecast was for a surplus of £3,249k – allowing for the impact of FRS 17. The main reason for the difference was the slippage in the planned disposals of surplus property as part of the substantial capital development programme. Sales achieved in the year totalled £779k compared with the planned amount of £9,490k. I am pleased to say that since the year end further proceeds of £3,141k have been received. It is expected that the remaining sales will be completed in the current year.

At the level of operating surplus, before property sales, the result was a deficit of £2,711k. This compares with an original budget of a deficit of £6,240k. This welcome result took place against adverse developments in some aspects of the University's finances. These included shortfalls in student recruitment in some categories – particularly overseas campus-based students and some distance learning courses; a lower contribution than expected from research grants and contracts; and very steep increases in utilities costs. These were more than offset by positive movements in staff costs – where vacancy savings in many areas were larger than budget and staff numbers fell slightly during the year; the costs of implementation of the Framework Agreement on pay and conditions of service – where the transitional costs were below forecast; strong growth in departmental income; a good result, after a slow start, in residences and conference income; and good returns on investments and cash balances.

Other significant factors in income were a rise in HEFCE grants – up £5,083k to £57,432k and a modest but welcome rise in research grants and contracts – up £887k to £35,856k.

Balance Sheet

The most notable feature, reflecting the substantial capital development programme, is the growth in Tangible Assets to £126.7m as a result of additions of £33.4m in the year. The major projects included the New Hall student residences, now open and well received and the new Library where work is ongoing. There was also expenditure of £2m on major equipment.

Grants of £14.2m were received from HEFCE and other sources to part-fund these additions. It is pleasing to report that new donations received in the year as a result of the fundraising campaign were nearly £2m, and there are pledges of substantial future sums. Loan finance has been used for New Hall and towards the costs for the new Library, taking total borrowings up from £8.3m to £27m at the year end. The loan terms have been structured to minimise the impact of any significant rise in interest rates.

The deficit at the year end means that the University is likely to need a waiver from Barclays Bank for one covenant in its facility agreement. The Bank has already given a conditional waiver. FRS 25 requires the loans to be treated as short term debt with the consequence that there is a net current liability position of £23.7m. There is correspondingly a low figure of £4.5m for long term loans. The delayed land sales would have converted the position to net current assets, and long term loans of £26.6m, had the forecast timetable been met. However, the cash position including current asset investments remained satisfactory, finishing at £20.7m, up significantly from the previous year.

Cash Flow

There was a cash inflow from operating activities of £4.5m, compared with £3.6m the previous year. One objective of the University's medium term financial strategy is to improve cash generation further in order to fund further developments.

Pension Schemes

The balance sheet incorporates the requirements of FRS 17 relating to the University's own defined benefit pension scheme, the Pension and Assurance Scheme. The FRS 17 deficit of £30.8m compares with an interim Actuarial Valuation commissioned by the Trustees of the scheme, which showed a deficit of £21m. The scheme is closed to new members so new staff participate in a defined contribution scheme. It is clear that with improved life expectancy and lower future investment returns, the funding requirements are likely to be a significant burden on the University's finances for some years to come. In respect of the USS Scheme, whilst contribution levels have

Treasurer's Report for the Year Ended 31 July 2006 (continued)

not changed, it is clear that the same pressures are applying and USS is consulting on possible changes to the scheme in order to offset higher contributions of perhaps 2% or more.

Prospects

Whilst the year ended reasonably considering the slippage in the planned property disposals, the University's financial position remains challenging. There are new challenges to meet in 2006/07, including possible reductions in NHS funding for the Medical School, and possible changes to VAT treatment of the Library. The University's medium term financial strategy requires a further set of value for money measures of £4m by 2008/09. However, the main financial challenge is to grow income faster and profitably. There are some encouraging signs, with attendances at University Open Days for admission in 2007 up by over 50%, applications for research grants and contract funds also up by over 50%, and the University again doing very well in

the National Student Survey, coming top among mainstream English universities in 2006. These show promise for the future, on which the University can and must build.

Conclusion

There are limits in the story that any set of Financial Statements can tell. Implicit however in the results of the year with its achievements – and indeed some disappointments – is the continuing striving for excellence by every member of the staff. Without their dedication and indeed long hours, it would be a very different picture and for this, I and other members of the Council express our deep gratitude.

Dr M.A. Chamberlain
Treasurer

28 November 2006

Corporate Governance

The following statement is given to assist readers of the financial statements to obtain an understanding of the governance procedures of the University. The University endeavours to conduct its business in accordance with the seven Principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The University has applied the principles set out in Section 1 of the Revised Combined Code on Corporate Governance issued by the London Stock Exchange in July 2003, incorporating internal control guidance as amended by the British Universities Finance Directors Group. The 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. The review confirmed that the Council's procedures generally closely followed recommended CUC practice. The most significant change which resulted was the reduction of the membership of Council from 34 to 25 with effect from the 2006/07 session, in line with the CUC's recommendation. Lay representation has been strengthened on the Remuneration Committee concerned with the remuneration of the Vice-Chancellor and senior officers.

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 its Statement of Primary Responsibilities and under the Financial Memorandum with the Higher Education Funding Council for England. The Council holds to itself, inter alia, responsibility for the ongoing strategic direction of the University, approval of major developments and the receipt of regular minutes from its Committees on the day to day operations of its business and of its subsidiary companies. The Council meets five times a year and has several Committees, including the Policy and Strategy Committee, the Finance and General Purposes Committee, the Staffing Committee, three Remuneration Committees and an Audit Committee. All of these Committees are formally constituted with terms of reference and include members drawn from the lay membership of Council.

The Policy and Strategy Committee inter alia recommends to Council the University's annual financial statements and annual budgets. The Budgets and Resources Committee is responsible to the Policy and Strategy Committee for

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

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

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

Risk Management

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

The senior management team receives termly reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. 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

Corporate Governance (continued)

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 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 2006 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 2006 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 2010, 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
28 November 2006

Responsibilities of the University's Council (continued)

Members of Council

The Members of Council as at 31 July 2006 were as follows:

Sir Peter Williams

Mr R. H. Bettles

Professor W. J. Brammar

His Hon. Judge D. Brunning

Professor R. G. Burgess

Professor G. R. Campbell

Dr M. A. Chamberlain

Professor C. M. V. Clarkson

Mr P. J. Cottingham

Mr J. C. Foster

Professor J. C. Fothergill

Mr S. Green

Professor A. R. Hillman

Ms F. Hussain

Professor P. M. Jackson

Mr D. M. James

Professor I. Lauder

Professor K. C. Lee

Ms A. Linsell

Sir Tom McKillop

Mr A. M. Mamujee

Dr B. J. Rawlings

Professor E. J. Shattock

Mr D. Sissling

Professor D. J. Taylor

Professor M. P. Thompson

Dr B. E. Towle

Mr A. R. Weston

Mr D. J. Woodhead

Independent Auditors' Report to the University's Council

We have audited the Group and University financial statements (the "financial statements") of the University of Leicester for the year ended 31 July 2006 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective Responsibilities of the University's Council and Auditors

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

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

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

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

Basis of Opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the group as at 31 July 2006 and of the University's and Group's deficit of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England, and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2006 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2006 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, and the funding agreement with the Training and Development Agency for Schools.

KPMG LLP
28 November 2006
Chartered Accountants
Registered Auditor

2 Cornwall Street
Birmingham
B3 2DL

Statement of Principal Accounting Policies

1. Accounting Convention

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

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

In these financial statements the following new standards have been adopted for the first time:

- FRS 21 'Events after the balance sheet date';
- FRS 28 'Corresponding amounts'.

The accounting policies under these new standards are set out below together with an indication of the effects of their adoption. FRS 21 'Events after the balance sheet date' has not had a material effect on the financial statements. FRS 28 'Corresponding amounts' has had no material effect as it imposes the same requirements for comparatives as hitherto required by the Companies Act 1985.

Prior Year Adjustment

The recognition and measurement requirements of FRS 17 'Retirement benefits' have been adopted in the financial statements. Previously the transitional disclosures of that standard have been followed. The full adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are given in note 31.

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 2006. The consolidated financial statements do not include those of Lucent Limited which ceased trading on 31 July 2004 or those of the University of Leicester Students' Union as it is a separate organisation in which the University has no significant influence over policy decisions.

3. Recognition of Income

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

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

4. Pension Schemes

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

5. Foreign Currencies

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

6. Leases

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

7. Land and Buildings

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

Statement of Principal Accounting Policies (continued)

depreciated over the period of 15 years. The value of refurbishments capitalised in the year have been £3.24m. Leasehold buildings are depreciated over 50 years, or if shorter, the period of the lease.

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.

8. Equipment

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

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

General equipment including vehicles and computer hardware – 3 years

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

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

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

9. Investments

Endowment Asset Investments are included in the Balance Sheet at market value. 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. For this reason the University is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures. The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

15. Cash Flows and Liquid Resources

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

Consolidated Income and Expenditure Account

		2005/06	2004/05 (as restated)
		£000	£000
Income	Note		
Funding Council Grants	1	57,432	52,349
Academic Fees and Support Grants	2	40,451	40,485
Research Grants and Contracts	3	35,856	34,969
Other Operating Income	4	38,809	38,561
Endowment Income and Interest Receivable	5	1,328	1,092
		<hr/>	<hr/>
Total Income		173,876	167,456
		<hr/> <hr/>	<hr/> <hr/>
Expenditure			
Staff Costs	6	106,116	102,268
Other Operating Expenses	7	63,949	59,052
Depreciation	11	4,891	4,942
Interest Payable	8	1,631	1,611
		<hr/>	<hr/>
Total Expenditure	10	176,587	167,873
		<hr/> <hr/>	<hr/> <hr/>
Deficit on Continuing Operations After Depreciation of Fixed Assets at Cost and Before Tax		(2,711)	(417)
Profit on Disposal of Assets		779	2,193
		<hr/>	<hr/>
(Deficit) / Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost and Disposal of Assets but Before Tax		(1,932)	1,776
Taxation		–	–
		<hr/>	<hr/>
(Deficit) / Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax		(1,932)	1,776
Transfer to Specific Endowments		(48)	(25)
		<hr/>	<hr/>
(Deficit) / Surplus for the year retained within General Reserves	9	(1,980)	1,751
		<hr/> <hr/>	<hr/> <hr/>

- The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see note 31).
- There is no difference between the retained deficit 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	2005/06 £000	2004/05 (as restated) £000
(Deficit) / Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax	9	(1,980)	1,751
Appreciation of Endowment Asset Investments	20	709	640
Endowment Income Retained in the Year	20	48	25
New Endowments	20	1	282
Actuarial Loss in respect of Pension Scheme	30	(4,130)	(5,233)
Total Recognised Losses Relating to the Year		(5,352)	(2,535)
Prior Year Adjustment*	31	–	(22,136)
Total Recognised Losses Since the Last Period		(5,352)	(24,671)

	2005/06 £000	2004/05 (as restated) £000
Reconciliation		
Opening Reserves and Endowments	7,808	32,479
Total Recognised Losses for the Year	(5,352)	(2,535)
Prior Year Adjustment*	–	(22,136)
Closing Reserves and Endowments	2,456	7,808

*Net Pension (Liability) at 1 August 2004

Balance Sheets

	Note	Consolidated		University	
		2006 £000	2005 (as restated) £000	2006 £000	2005 (as restated) £000
Fixed Assets					
Tangible Assets	11	126,734	98,674	116,594	96,233
Investments	12	–	1	–	1
		<u>126,734</u>	<u>98,675</u>	<u>116,594</u>	<u>96,234</u>
Endowment Asset Investments	13	<u>5,716</u>	<u>4,958</u>	<u>5,716</u>	<u>4,958</u>
Current Assets					
Stocks		1,099	1,126	1,099	1,126
Debtors	14	20,099	19,029	31,322	22,400
Investments	15	18,772	11,248	18,772	11,248
Cash at Bank and in Hand	29	1,957	1,230	1,551	1,176
		<u>41,927</u>	<u>32,633</u>	<u>52,744</u>	<u>35,950</u>
Creditors: Amounts Falling Due Within One Year	16	<u>(65,624)</u>	<u>(36,071)</u>	<u>(71,883)</u>	<u>(35,455)</u>
Net Current (Liabilities) / Assets		<u>(23,697)</u>	<u>(3,438)</u>	<u>(19,139)</u>	<u>495</u>
Total Assets Less Current Liabilities / Assets		<u>108,753</u>	<u>100,195</u>	<u>103,171</u>	<u>101,687</u>
Creditors: Amounts Falling Due After More Than One Year	17	<u>(4,474)</u>	<u>(4,665)</u>	<u>(4,474)</u>	<u>(4,665)</u>
Provisions for Liabilities and Charges	18	<u>(375)</u>	<u>(158)</u>	<u>(375)</u>	<u>(158)</u>
Net Assets Excluding Pension Liability		<u>103,904</u>	<u>95,372</u>	<u>98,322</u>	<u>96,864</u>
Pension Liability	30	<u>(30,820)</u>	<u>(27,406)</u>	<u>(30,820)</u>	<u>(27,406)</u>
Net Assets Including Pension Liability		<u>73,084</u>	<u>67,966</u>	<u>67,502</u>	<u>69,458</u>
Deferred Capital Grants	19	<u>70,628</u>	<u>60,158</u>	<u>63,247</u>	<u>60,158</u>
Endowments					
Specific	20	4,602	4,001	4,602	4,001
General	20	1,114	957	1,114	957
		<u>5,716</u>	<u>4,958</u>	<u>5,716</u>	<u>4,958</u>
Reserves					
General Reserve Excluding Pension Liability		27,560	30,256	29,359	31,748
Pension Reserve	30	<u>(30,820)</u>	<u>(27,406)</u>	<u>(30,820)</u>	<u>(27,406)</u>
General Reserve Including Pension Liability	21	<u>(3,260)</u>	<u>2,850</u>	<u>(1,461)</u>	<u>4,342</u>
Total		<u>73,084</u>	<u>67,966</u>	<u>67,502</u>	<u>69,458</u>

Professor R.G. Burgess, Vice-Chancellor
 J.C. Foster, Chairman of the Council
 Dr M.A. Chamberlain, Treasurer
 28 November 2006

Consolidated Cash Flow Statement

	Note	2005/06 £000	2004/05 £000
Net Cash Inflow From Operating Activities	25	4,509	3,557
Returns on Investments and Servicing of Finance	26	294	419
Taxation		–	–
Capital Expenditure and Financial Investment	27	(15,212)	(4,225)
Cash Outflow Before Use of Liquid Resources and Financing		(10,409)	(249)
Management of Liquid Resources	29	(7,524)	(95)
Financing	28	18,660	(160)
Increase / (Decrease) in Cash	29	727	(504)

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

	Note	2005/06 £000	2004/05 £000
Increase / (Decrease) in Cash in the Year	29	727	(504)
Increase in Short Term Deposits	29	7,524	95
Repayment of Debt	28	3,676	160
New Loan Capital Drawdown	28	(22,336)	–
Change in Net (Debt) Resulting from Cash Flows		(10,409)	(249)
Net Funds at 1 August	29	4,137	4,386
Net (Debt) / Funds at 31 July	29	(6,272)	4,137

Notes to the Financial Statements

Note 1 Funding Council Grants

	2005/06	2004/05
	£000	£000
HEFCE:		
Recurrent Grant:		
Basic Grant	48,332	45,638
Special Initiatives	4,857	2,673
Buildings: Deferred Capital Grants (<i>note 19</i>)	1,140	1,090
Equipment: Deferred Capital Grants (<i>note 19</i>)	1,312	885
	<u>55,641</u>	<u>50,286</u>
Training and Development Agency for Schools:		
Recurrent	1,683	1,903
Other	108	160
	<u>57,432</u>	<u>52,349</u>
	<u><u>57,432</u></u>	<u><u>52,349</u></u>

Note 2 Academic Fees and Support Grants

	2005/06	2004/05
	£000	£000
Full-Time Course Fees:		
From Home and European Union Students	11,446	11,581
From Students Outside the European Union	14,712	14,692
Part-Time Course Fees:		
From Home and European Union Students	7,868	7,964
From Students Outside the European Union	5,471	5,553
Research Training Support Grants	954	695
	<u>40,451</u>	<u>40,485</u>
	<u><u>40,451</u></u>	<u><u>40,485</u></u>

Note 3 Research Grants and Contracts

	2005/06	2004/05
	£000	£000
Research Councils	14,784	14,328
UK Based Charities	9,064	9,105
UK Government, Health and Hospital Authorities	5,316	5,898
UK Industry, Commerce and Public Corporations	3,392	2,854
EU Government Bodies	1,810	1,312
EU Other	351	408
Other Overseas	1,059	865
Other Sources	80	199
	<u>35,856</u>	<u>34,969</u>
	<u><u>35,856</u></u>	<u><u>34,969</u></u>

This includes income of £970,000 (2004/05-£1,448,000) from deferred capital grants.

Note 4 Other Operating Income

	2005/06	2004/05
	£000	£000
Residences, Catering and Conferences	14,458	15,100
Health Authority Funded Posts	11,139	11,585
Other Services Rendered	3,214	3,634
Bookshops	2,336	2,349
Other Income	7,662	5,893
	<hr/>	<hr/>
	38,809	38,561
	<hr/> <hr/>	<hr/> <hr/>

Note 5 Endowment Income and Interest Receivable

	2005/06	2004/05
	£000	£000
Income from Current Asset Investments	1,120	926
Specific Endowments (<i>note 20</i>)	179	133
General Endowments (<i>note 20</i>)	29	33
	<hr/>	<hr/>
	1,328	1,092
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (continued)

Note 6 Staff

	2005/06 £000	2004/05 £000
Staff Costs:		
Wages and Salaries	87,450	84,880
Social Security Costs	7,643	7,275
Other Pension Costs	12,277	11,021
	<u>107,370</u>	<u>103,176</u>
FRS 17 Adjustment	(1,254)	(908)
	<u>106,116</u>	<u>102,268</u>
Emoluments of the Vice-Chancellor:		
Salary and Benefits	184	168
Employer's Pension Contributions	24	21
	<u>208</u>	<u>189</u>

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

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

	All Staff		Staff on Clinical Scales		Staff on Non-clinical Scales	
	2005/06	2004/05	2005/06	2004/05	2005/06	2004/05
£70,000 - £80,000	25	19	11	11	14	8
£80,001 - £90,000	15	19	11	14	4	5
£90,001 - £100,000	15	9	11	8	4	1
£100,001 - £110,000	11	13	10	13	1	-
£110,001 - £120,000	8	10	8	10	-	-
£120,001 - £130,000	7	11	7	11	-	-
£130,001 - £140,000	9	4	9	4	-	-
£140,001 - £150,000	3	3	3	3	-	-
£150,001 - £160,000	5	7	5	7	-	-
£160,001 - £170,000	5	4	5	4	-	-
£170,001 - £180,000	3	-	3	-	-	-
£180,001 - £190,000	-	1	-	1	-	-
£190,001 - £200,000	-	2	-	2	-	-
£200,001 - £210,000	2	-	2	-	-	-

Compensation for loss of office paid to former higher-paid staff:

	2005/06 £000	2004/05 £000
Compensation	65	-
Pension Benefits	178	-

The estimated value of other benefits has been calculated in accordance with FRS 17.

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

	2005/06 Number	2004/05 Number
Academic and Clinical	741	726
Research and Analogous	392	421
Administration, Library, Computer and Other Related	416	399
Technical	280	304
Clerical, Manual and Ancillary	990	1,034
	<u>2,819</u>	<u>2,884</u>

Note 7 Other Operating Expenses

	2005/06	2004/05
	£000	£000
Equipment and Furniture	7,531	7,143
Maintenance and Minor Works	6,705	6,891
Energy, Fuel and Water	4,765	3,342
Rent, Rates and Insurance	3,820	3,969
Books, Periodicals and General Publications	4,162	3,997
Stationery, Printing, Postage and Telephone	2,189	2,250
Consumables and Laboratory Expenditure	5,442	4,337
Staff Support and Travel	9,477	9,217
Pensions and Premature Retirement Costs	1,172	533
Students' Union Grant	650	577
Fellowships, Scholarships and Prizes	3,672	3,072
Catering Supplies	1,131	1,321
External Auditors' Remuneration for Audit Work	42	31
External Auditors' Remuneration for Non Audit Work	35	8
Internal Auditors' Remuneration for Audit Work	73	77
Other Expenditure	13,083	12,287
	<u>63,949</u>	<u>59,052</u>
	<u><u>63,949</u></u>	<u><u>59,052</u></u>

Note 8 Interest Payable

	2005/06	2004/05
	£000	£000
Mortgage Loans:		
Repayable Within Five Years, Not by Instalments	554	183
Repayable Wholly or Partly in More Than Five Years	538	483
Pension Finance Costs	539	945
	<u>1,631</u>	<u>1,611</u>
	<u><u>1,631</u></u>	<u><u>1,611</u></u>

Notes to the Financial Statements (continued)

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

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

	2005/06 £000	2004/05 £000
University's (Deficit) / Surplus for the Year	(1,677)	2,746
Surplus Generated by the Subsidiary Undertaking and transferred to the University under Deed of Covenant	4	457
Effect of difference in accounting treatment between University and consolidated financial statements	(477)	(1,585)
Surplus made by Subsidiary Undertakings	170	133
Total	<u>(1,980)</u>	<u>1,751</u>

Note 10 Analysis of 2005/06 Expenditure by Activity

	Other Operating				Total £000
	Staff Costs £000	Expenses £000	Depreciation £000	Interest Payable £000	
Academic Departments	63,719	16,382	1,460	–	81,561
Academic Services	5,339	5,226	220	–	10,785
Research Grants and Contracts	18,146	10,099	970	–	29,215
Residences and Catering	4,182	8,069	296	878	13,425
Premises	4,655	10,176	1,936	73	16,840
Administration and Central Services	8,413	11,048	9	–	19,470
Other Expenditure	1,662	2,949	–	680	5,291
Total per Income and Expenditure Account	<u>106,116</u>	<u>63,949</u>	<u>4,891</u>	<u>1,631</u>	<u>176,587</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 2005	94,833	10,354	24,621	129,808
Additions	31,396	–	2,015	33,411
Disposals	(59)	–	–	(59)
Assets held for sale	(521)	–	–	(521)
At 31 July 2006	125,649	10,354	26,636	162,639
Depreciation				
At 1 August 2005	8,909	1,322	20,903	31,134
Charge for the year	2,026	207	2,658	4,891
Eliminated on disposals	(12)	–	–	(12)
Eliminated on assets held for sale	(108)	–	–	(108)
At 31 July 2006	10,815	1,529	23,561	35,905
Net Book Value				
At 1 August 2005	85,924	9,032	3,718	98,674
At 31 July 2006	114,834	8,825	3,075	126,734
University				
Cost				
At 1 August 2005	92,392	10,354	24,621	127,367
Additions	23,726	–	1,979	25,705
Disposals	(59)	–	–	(59)
Assets held for sale	(521)	–	–	(521)
At 31 July 2006	115,538	10,354	26,600	152,492
Depreciation				
At 1 August 2005	8,909	1,322	20,903	31,134
Charge for the year	2,026	207	2,651	4,884
Eliminated on disposals	(12)	–	–	(12)
Eliminated on assets held for sale	(108)	–	–	(108)
At 31 July 2006	10,815	1,529	23,554	35,898
Net Book Value				
At 1 August 2005	83,483	9,032	3,718	96,233
At 31 July 2006	104,723	8,825	3,046	116,594

Land and buildings includes an amount of £31,531,535 in respect of assets under construction (2005 – £9,229,384). These assets are not depreciated until brought into use.

Land and buildings with a net book value of £45,522,622 and cost of £48,731,735 have been funded from Treasury sources: should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the HEFCE.

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

Consolidated and University

£000
3,742
1,149
4,891

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 or other interest</i>	<i>Principal Activity</i>
UK HEP Limited (Shareholding transferred to the Royal College of Nursing in December 2005)	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
EMIN Limited	16.7%	Identifies and shares best practice in support of the incubation of start-up and early stage technology based companies
NTI Limited	3%	Provides training support to technology companies in the East Midlands

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

Note 13 Endowment Asset Investments

	Consolidated & University	
	2006	2005
	£000	£000
Balance at 1 August	4,958	4,011
Additions: Capital	1	282
Income	48	25
Appreciation on Revaluation	709	640
Balance at 31 July	5,716	4,958
Analysis of investments:		
Listed on London Stock Exchange:		
Fixed Interest Stocks	467	474
Equities	3,957	3,568
Not Listed:		
Equities	525	168
Cash Held on Deposit	767	748
	5,716	4,958

Note 14 Debtors

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
Amounts Falling Due Within One Year:				
Research Grants and Contracts	6,567	7,260	6,567	7,260
Amount owed by Subsidiary Undertaking	–	–	2,563	1,959
Assets held for sale	413	–	413	–
Other Debtors and Prepayments	13,119	11,769	12,942	11,152
Amounts Falling Due After More Than One Year:				
Amount owed by Subsidiary Undertaking	–	–	8,837	2,029
	20,099	19,029	31,322	22,400

Note 15 Current Asset Investments

	Consolidated & University	
	2006	2005
	£000	£000
Fixed Interest Stocks	631	631
Equities	2,206	2,191
Bank and Building Society Deposits	15,935	8,426
	18,772	11,248

Notes to the Financial Statements (continued)

Note 16 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Mortgages and Other Loans	22,527	3,676	22,527	3,676
Payments Received on Account	16,206	14,342	14,766	14,342
Creditors	15,721	10,988	23,238	10,372
Social Security and Other Tax Payable	2,759	2,756	2,974	2,756
Accruals and Deferred Income	8,411	4,309	8,378	4,309
	<u>65,624</u>	<u>36,071</u>	<u>71,883</u>	<u>35,455</u>

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

	Consolidated & University	
	2006 £000	2005 £000
Mortgages:		
Natwest PLC repayable by 2019	4,474	4,665
	<u>4,474</u>	<u>4,665</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 a fixed rate of 9.753%.

Bank loans and mortgages are repayable as follows:

	Consolidated & University	
	2006 £000	2005 £000
In one year or less (<i>note 16</i>)	22,527	3,676
Between one and two years	208	191
Between two and five years	744	683
In five or more years	3,522	3,791
	<u>27,001</u>	<u>8,341</u>

Note 18 Provisions for Liabilities and Charges

	Consolidated & University	
	2006	2005
	£000	£000
Pensions:		
Balance at 1 August 2005	158	738
Expenditure in the Year	(128)	(682)
Transferred from Income and Expenditure Account	345	102
	<hr/>	<hr/>
Balance at 31 July 2006	375	158
	<hr/> <hr/>	<hr/> <hr/>

Included within provisions are amounts payable in respect of staff who have elected to take early retirement. This provision is additional to that disclosed within FRS 17.

Notes to the Financial Statements (continued)

Note 19 Deferred Capital Grants

	Funding Council £000	Other Grants & Benefactions £000	Total £000
Consolidated			
At 1 August 2005			
Buildings	41,701	15,277	56,978
Equipment	1,772	1,408	3,180
Total	43,473	16,685	60,158
Cash Received and Receivable			
Buildings	12,343	–	12,343
Equipment	1,279	590	1,869
Total	13,622	590	14,212
Released to Income and Expenditure			
Buildings	1,140	320	1,460
Equipment	1,312	970	2,282
Total	2,452	1,290	3,742
At 31 July 2006			
Buildings	52,904	14,957	67,861
Equipment	1,739	1,028	2,767
Total	54,643	15,985	70,628
University			
At 1 August 2005			
Buildings	41,701	15,277	56,978
Equipment	1,772	1,408	3,180
Total	43,473	16,685	60,158
Cash Received and Receivable			
Buildings	4,962	–	4,962
Equipment	1,279	590	1,869
Total	6,241	590	6,831
Released to Income and Expenditure			
Buildings	1,140	320	1,460
Equipment	1,312	970	2,282
Total	2,452	1,290	3,742
At 31 July 2006			
Buildings	45,523	14,957	60,480
Equipment	1,739	1,028	2,767
Total	47,262	15,985	63,247

Note 20 Endowments

	Specific £000	General £000	Total £000
At 1 August 2005	4,001	957	4,958
Additions	1	–	1
Appreciation of Endowment Asset Investments	552	157	709
Income for Year (note 5)	179	29	208
Expenditure for Year	(131)	(29)	(160)
At 31 July 2006	4,602	1,114	5,716

Funds Exceeding £30,000

	2006 £000	2005 £000
Specific		
Ulverscroft Endowment	394	380
Church Langton Fund	190	187
Fears Endowment	304	285
Stead and Simpson Fund	185	179
Spire Endowment	116	113
Hickman Bequest	45	42
Frank May Funds	93	98
Faire and Allaway Fund	87	87
Burton Holocaust Centre	224	217
Ellis Foundation	56	55
Street Travel Award	41	38
Medical Service Award	44	42
Bennett and Family Fund	37	36
Law Development Fund	63	59
Marc Fitch Fund	84	82
McKay Memorial Fund	43	40
Redfearn Memorial Fund	40	38
Janner Travel Fund	34	33
Sylvester-Bradley Award	34	33
Richard Attenborough Centre Fund	231	216
H.S. Bennett	34	32
Wathes Centenary Scholarship Fund	468	453
Hoskins-Duffield Fund	63	61
DF Bursary Fund	35	33
Other Endowments	778	748
Movement In Market Value On Above Funds	879	414
	4,602	4,001
General		
Robert Rowley Fund	142	137
Lewis Lilley Fund	214	207
Simpson Gee Fund	129	125
Tyler Chair	122	118
Bennett Lectureship	61	59
Norton Scholarship	47	45
Other Endowments	45	44
Movement In Market Value On Above Funds	354	222
	1,114	957

Notes to the Financial Statements (continued)

Note 21 General Reserve Including Pension Liability	Consolidated	University
	£000	£000
(Deficit) after depreciation of fixed assets at cost and tax	(1,980)	(1,673)
Actuarial loss in respect of Pension Scheme	(4,130)	(4,130)
Balance at 1 August 2005	<u>2,850</u>	<u>4,342</u>
Balance at 31 July 2006	<u>(3,260)</u>	<u>(1,461)</u>

Note 22 Capital Commitments

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
Commitments Contracted at 31 July	21,396	7,569	5,016	6,285
Authorised but Not Contracted at 31 July	15,637	54,417	14,189	30,183
	<u>37,033</u>	<u>61,986</u>	<u>19,205</u>	<u>36,468</u>

Note 23 Contingent Liability

	Consolidated	
	2006	2005
	£000	£000
Bank Guarantee in respect of Subsidiary Company (Lucent Limited)	–	75
	<u>–</u>	<u>75</u>

Note 24 Lease Obligations

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

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
Leases expiring:				
Within one year	130	–	133	3
Between two and five years	102	226	132	226
Over five years	–	–	303	–
	<u>232</u>	<u>226</u>	<u>568</u>	<u>229</u>

The University has no finance lease commitments.

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

	2005/06	2004/05
	£000	£000
(Deficit) / Surplus Before Tax	(1,980)	1,751
FRS 17 Adjustment	(716)	37
Depreciation (<i>note 11</i>)	4,891	4,942
Profit on Disposal of Assets	(779)	(2,193)
Deferred Capital Grants Released to Income (<i>note 19</i>)	(3,742)	(3,743)
Investment Income (<i>note 5</i>)	(1,328)	(1,092)
Interest Payable Excluding FRS 17	1,092	666
Decrease / (Increase) in Stocks	27	(6)
(Increase) / Decrease in Debtors	(1,890)	234
Increase in Creditors	8,717	3,541
Increase / (Decrease) in Provisions	217	(580)
Net Cash Inflow From Operating Activities	4,509	3,557

Note 26 Returns on Investments and Servicing of Finance

	2005/06	2004/05
	£000	£000
Income from Endowments (<i>note 20</i>)	208	166
Income from Short Term Investments	1,074	886
Interest Paid	(988)	(633)
	294	419

Note 27 Capital Expenditure and Financial Investment

	2005/06	2004/05
	£000	£000
Tangible Assets Acquired (Other than Leased Equipment)	(31,529)	(16,645)
Proceeds from Tangible Asset Disposal	827	2,657
Endowment Asset Investments Acquired (<i>note 13</i>)	(1)	(282)
Total Fixed and Endowment Asset Investments Acquired	(30,703)	(14,270)
Deferred Capital Grants Received	15,490	9,763
Endowments Received (<i>note 20</i>)	1	282
	(15,212)	(4,225)

Notes to the Financial Statements (continued)

Note 28 Analysis of Changes in Consolidated Financing During the Year

	Mortgages & Loans £000
Balances at 1 August 2004	8,501
Capital Repayments	(160)
New Loan Capital Drawdown	—
Balances at 31 July 2005	8,341
Capital Repayments	(3,676)
New Loan Capital Drawdown	22,336
Balances at 31 July 2006	27,001

Note 29 Analysis of Changes in Net Funds / (Debt)

	At 1 August £000	Cash Flows £000	Other Changes £000	At 31 July £000
Cash at Bank and in Hand	1,230	727	—	1,957
Short Term Deposits	11,248	7,524	—	18,772
Debt due within one year	(3,676)	3,676	(22,527)	(22,527)
Debt due after one year	(4,665)	—	191	(4,474)
	<u>4,137</u>	<u>11,927</u>	<u>(22,336)</u>	<u>(6,272)</u>
	<u><u>4,137</u></u>	<u><u>11,927</u></u>	<u><u>(22,336)</u></u>	<u><u>(6,272)</u></u>

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 (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The 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 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

The valuation was carried out using the projected unit method.

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

Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at the valuation date and under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded.

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as 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 next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £7,345,000 (2005: £7,105,000). This includes £622,000 (2005: £593,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

Leicester Pension and Assurance Scheme (PAS)

The 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 2006 was £4,496,000 of which employers contributions totalled £3,648,000 and employees contributions totalled £848,000. The agreed contribution rates from 1 August 2006 are 28.7% for employers and 6.35% for employees.

Notes to the Financial Statements (continued)

Note 30 Pension Schemes (continued)

FRS 17

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

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

The following information is based upon the full actuarial valuation at 31 July 2004, updated to 31 July 2006 by a qualified independent actuary.

	2006	2005	2004
Rate of increase in salaries	4.25%	4.30%	4.50%
Rate of increase in pensions in payment	3.00%	2.80%	3.00%
Discount rate	5.25%	5.25%	5.70%
Inflation assumption	3.00%	2.80%	3.00%

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

	Rate of return expected at 31 July 2006	Value at 31 July 2006 £000	Rate of return expected at 31 July 2005	Value at 31 July 2005 £000	Rate of return expected at 31 July 2004	Value at 31 July 2004 £000
Equities	7.00%	53,569	7.00%	50,773	7.00%	40,415
Bonds	5.25%	24,422	5.25%	15,474	5.70%	12,810
Cash	4.75%	248	4.75%	2,061	4.75%	1,155
		<u>78,239</u>		<u>68,308</u>		<u>54,380</u>

The following amounts at 31 July 2006 were measured in accordance with the requirements of FRS 17:

	2006 £000	2005 £000	2004 £000
Total market value of assets	78,239	68,308	54,380
Present value of scheme liabilities	(109,059)	(95,714)	(76,516)
(Deficit) in the scheme – Net pension liability	<u>(30,820)</u>	<u>(27,406)</u>	<u>(22,136)</u>

Note 30 Pension Schemes (continued)

If the previously stated amounts had been recognised in the financial statements, the University's net assets and general reserve at 31 July 2006 would be as follows:

	2006 £000	2005 £000	2004 £000
Net assets excluding pension liability	103,904	95,372	88,348
Pension liability	(30,820)	(27,406)	(22,136)
Net assets including pension liability	73,084	67,966	66,212
General reserve excluding pension liability	27,560	30,256	28,468
Pension reserve	(30,820)	(27,406)	(22,136)
General reserve including pension liability	(3,260)	2,850	6,332

	2005/06 £000	2004/05 £000
Analysis of amounts charged to Income and Expenditure Account:		
Current service cost	(2,393)	(2,032)
Past service cost	–	–
Financing:		
– expected return on pension scheme assets	4,511	3,665
– interest on expected scheme liabilities	(5,050)	(4,610)
Net return	(2,932)	(2,977)

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

Actual return less expected return on pension scheme assets	3,182	8,669
Experience gains and losses arising on scheme liabilities	(4,439)	24
Changes in assumptions underlying the present value of scheme liabilities	(2,873)	(13,926)
Total actuarial (loss) recognised	(4,130)	(5,233)

Notes to the Financial Statements (continued)

Note 30 Pension Schemes (continued)

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

	2006 £000	2005 £000
Deficit on scheme at 1 August	(27,406)	(22,136)
Movement in year:		
– current service cost	(2,393)	(2,032)
– contributions	3,648	2,940
– past service costs	–	–
– other finance loss	(539)	(945)
– actuarial loss	(4,130)	(5,233)
Deficit on scheme at 31 July	(30,820)	(27,406)

An updated actuarial valuation at 31 July 2006 showed an increase in the deficit from £27,406 to £30,820. There have been no improvements in benefits and the contributions were increased to 28.7% on 1 August 2005.

The gains and losses for the year ended 31 July 2006 were as follows:

	2006	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:					
Amount (£000)	3,182	8,669	(469)	318	13,363
Percentage of scheme assets	4.1%	12.7%	(0.9)%	0.7%	30.8%
Experience gains and losses on scheme liabilities:					
Amount (£000)	(4,439)	24	(615)	556	50
Percentage of the present value of scheme liabilities	(4.1)%	0.0%	(0.8)%	0.8%	0.1%
Total amount recognised in the statement of total recognised gains and losses:					
Amount (£000)	(4,130)	(5,233)	1,723	(7,788)	(13,963)
Percentage of the present value of scheme liabilities	(3.8)%	(5.5)%	2.3%	(10.6)%	(23.3)%

Note 31 Prior Year Adjustment

The prior year adjustment relates to the implementation of FRS 17.

FRS 17 requires the assets of defined benefit pension schemes, such as the Leicester Pension and Assurance Fund, to be measured at market value at each balance sheet date, and the liabilities to be measured using a specific valuation method and to be discounted using a corporate bond rate. Any resulting share of the pension scheme surplus or deficit is recognised on the University balance sheet. Any resulting gains and losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the income and expenditure account.

The adoption of FRS 17 has resulted in the following impact on the income and expenditure account and statement of total recognised gains and losses:

	Consolidated	University
	£000	£000
Income and expenditure account reserve as previously stated	30,256	31,748
Pension liability at 1 August 2004	(22,136)	(22,136)
Movement during 2004/05:		
Employer service cost	(2,032)	(2,032)
Employer contributions	2,940	2,940
Past service cost	–	–
Net interest/return on assets	(945)	(945)
Actuarial loss	(5,233)	(5,233)
	<hr/>	<hr/>
Income and expenditure account reserve as restated at 31 July 2005	2,850	4,342
	<hr/> <hr/>	<hr/> <hr/>

Analysis of prior year adjustment

Adjustment to opening Income and Expenditure Account Reserve at 1 August 2004	(22,136)	(22,136)
Adjustment to Income and Expenditure Account for year ended 31 July 2005	(37)	(37)
Adjustment to Statement of Total Recognised Gains and Losses for the year ended 31 July 2005	(5,233)	(5,233)
	<hr/>	<hr/>
Total	27,406	27,406
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements (continued)

Note 32 Related Party Transactions

Due to the nature of the University's operations and the 29 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'.

At 31 July 2006 the University had outstanding balances on loans to the following company in which it has a shareholding or interest:

Perpetuity Research and Consultancy International Limited	£15,000	(2005: £75,000)
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Note 33 Post Balance Sheet Events

1. The University of Leicester is aware of the recent VAT Tribunal case concerning the University of Ulster which might have effects on the University of Leicester's transactions with Leicester Academic Library Services Limited, although Leicester Academic Library Services Limited has not received a formal challenge from Her Majesty's Revenue and Customs as at the date of this report. The University of Leicester and Leicester Academic Library Services Limited are taking legal advice on the matter in case action needs to be taken in 2006/07.
2. Two properties planned to be sold in 2005/06 financial year with a total sales value of £3,141,000 were sold on 2nd and 4th October 2006.
3. The deficit for the year means that the University will fail one financial covenant on its loans from Barclays Bank, concerning Operating Surplus to Total Debt Costs. This test would have been passed if the property sales above had occurred in 2005/06. Barclays Bank has issued an interim waiver to the rights available to it, which will be confirmed on their examination of these accounts.

Note 34 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.

	2005/06 £000	2004/05 £000
Income		
HEFCE Grants	514	451
Interest	5	2
	<u>519</u>	<u>453</u>
Expenditure		
Expenditure in Relation to Eligible Students	508	417
Audit Fees	1	1
	<u>509</u>	<u>418</u>
Balance at 31 July	<u>10</u>	<u>35</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 35 Training and Development Agency for Schools

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

	ITT Training Bursaries 2005/06 £000	Secondary Shortage Subjects 2005/06 £000
Cash received	<u>1,903</u>	<u>27</u>
Bursaries paid	1,794	2
Administrative costs and training grant	37	–
VAT on administrative costs	7	–
	<u>1,838</u>	<u>2</u>
Repayable to TDA	<u>65</u>	<u>25</u>

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

Five Year Summary Accounts

Income and Expenditure Account

	2001/02	2002/03	2003/04	2004/05	2005/06
	£000	£000	£000	£000	£000
Income					
Funding Council Grants	43,482	44,424	45,710	52,349	57,432
Academic Fees and Support Grants	31,816	36,616	39,274	40,485	40,451
Research Grants and Contracts	36,044	36,970	36,233	34,969	35,856
Other Operating Income	33,154	35,812	39,181	38,561	38,809
Endowment Income and Interest	1,346	1,234	1,050	1,092	1,328
Profit on Disposal of Assets	–	–	386	2,193	779
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Income	145,842	155,056	161,834	169,649	174,655
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expenditure					
Staff Costs	84,422	90,917	98,867	102,268	106,116
Other Operating Expenses	53,048	57,144	57,320	59,052	63,949
Depreciation	3,625	3,719	2,996	4,942	4,891
Interest Payable	1,212	819	790	1,611	1,631
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditure	142,307	152,599	159,973	167,873	176,587
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Transfer to Specific Endowments	–	–	28	25	48
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Surplus / (Deficit) for the year	<u>3,535</u>	<u>2,457</u>	<u>1,833</u>	<u>1,751</u>	<u>(1,980)</u>

Balance sheet

Fixed Assets	59,900	69,586	86,970	98,675	126,734
Endowment Asset Investments	3,606	3,653	4,011	4,958	5,716
Net Current Assets / (Liabilities)	8,248	8,623	2,945	(3,438)	(23,697)
Creditors: Amounts Due After One Year	(8,422)	(8,143)	(4,840)	(4,665)	(4,474)
Provisions for Liabilities and Charges	(463)	(1,449)	(738)	(158)	(375)
Pension Liability	–	–	–	(27,406)	(30,820)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Net Assets	<u>62,869</u>	<u>72,270</u>	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Represented By:					
Deferred Capital Grants	35,085	41,982	55,869	60,158	70,628
Endowments	3,606	3,653	4,011	4,958	5,716
General Reserves	24,178	26,635	28,468	30,256	27,560
Pension Reserve	–	–	–	(27,406)	(30,820)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Funds	<u>62,869</u>	<u>72,270</u>	<u>88,348</u>	<u>67,966</u>	<u>73,084</u>

Financial Statistics

Sources of Income

% of Total Income	2001/02	2002/03	2003/04	2004/05	2005/06
Grants from Funding Councils (HEFCE and TDA)	29.8%	28.7%	28.2%	30.8%	32.9%
Academic Fees and Support Grants	21.8%	23.6%	24.3%	23.9%	23.2%
Research Grants and Contracts	24.7%	23.8%	22.4%	20.6%	20.5%
Residences, Catering and Conferences	8.6%	8.5%	9.6%	8.9%	8.3%
Other Income	15.1%	15.4%	15.5%	15.8%	15.1%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure					
Staff Costs	59.3%	59.6%	61.8%	60.9%	60.1%
Other Operating Expenses	37.3%	37.5%	35.8%	35.2%	36.2%
Depreciation	2.5%	2.4%	1.9%	2.9%	2.8%
Interest Payable	0.9%	0.5%	0.5%	1.0%	0.9%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus / (Deficit) for the Year as a % of Total Income	2.4%	1.6%	1.1%	1.0%	(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>	64	66	67	68	59
Days Ratio of Net Current Assets / (Liabilities) to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i>	21	21	7	(7)	(49)
% Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i>	34	30	17	15	16

Indicators of Liquidity and Solvency

% Ratio of Liquid Assets to Current Liabilities <i>Extent to which current liabilities could be met from cash and liquid investments</i>	82	82	41	35	33
Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i>	1.3	1.3	1.1	0.9	0.7
Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i>	44	42	64	60	62



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