University *of* Leicester

Financial Statements

2008 - 2009

Education that Inspires
Research that Changes the World

THE UNIVERSITY OF THE YEAR 2008/9

www.le.ac.uk

Contents

Treasurer's Report for the Year Ended 31 July 2009

Format of the Financial Statements

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

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

The Mission and Strategy for the University

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

- We will be an established top ten UK university and rank in the top 150 institutions in the world.
- Our growing research strength will underpin this change. We will be a top ten British research university in terms of research income per head and research impact.
- We will build on our position as the pre-eminent University in the Midlands for teaching quality, student satisfaction and research impact. We will become Britain's top university for student satisfaction and teaching quality.

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

Highlights of the year

This has been a year of landmark achievements for the University.

In autumn 2008 the University won the Times Higher Education magazine's University of the Year award; the University has maintained its ranking as a top 20 university in the UK in every national media league table published this year; there have been record numbers of student applications and the University maintained its position as the only world-class university to hit Government-set targets for widening access to higher education.

Student numbers grew to 21,628 from 19,375 in 2007/8. The University has been delighted with the growth in student numbers, and admissions in the autumn of 2009 have also been very strong. The distribution of students in 2008/9 was:-

Undergraduate	10,971
Postgraduate	10,657
	21,628
Full-time	11,009
Part-time and distance-learning	9,930
Other	689
	21,628

In the autumn of 2008 the University announced a major development programme for the University's campus. The programme is a long-term vision, estimated to cost £1 billion, which would allow the capacity of the campus to increase by 100,000 square metres and provide increased capacity to allow student numbers to grow to 25,000.

The redevelopment of the Percy Gee Building, which houses the Students' Union, is the first major part of the programme and work started in May 2009. The £15 million scheme will transform the building and aims to develop one of the best Students' Union facilities in the country.

Income and Expenditure Account

Total income rose by 11.7% to £229.243 million, while total expenditure increased by 9.3% to £222.758 million.

The operating surplus was £6.485 million, compared to £1.497 million in 2007/8. The total surplus including all other items for the year was £6.442 million (2.8% of income), after the transfer to endowed funds, which compares to £1.350 million in 2007/8 (0.7% of income).

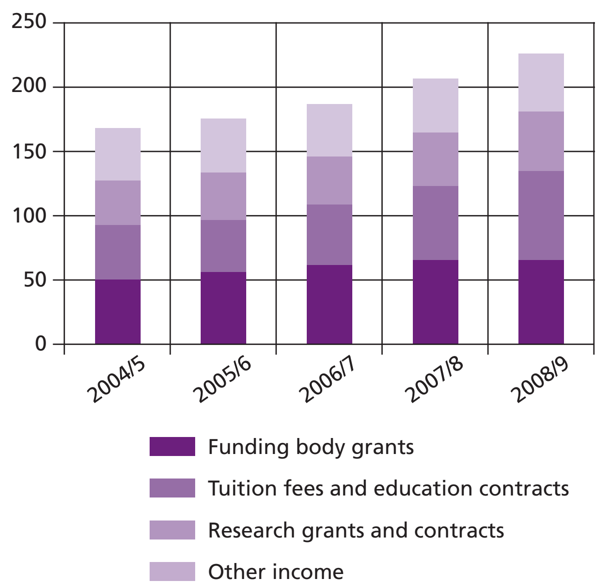
Treasurer's Report for the Year Ended 31 July 2009 (continued)

The budget for the year was for an operating surplus of £4.011 million and a total surplus of £7.836 million after land sales.

It is very pleasing to report the increase in the operating surplus, which represents the achievement of the targets included in the University's financial strategy.

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

Figure 1: Income (£ million)



The 2008/9 year got off to a very strong start with student intakes above target in almost all areas. This generated additional fee income and also had a positive impact on the occupation levels in student residences. The grants from funding bodies also showed a modest increase, to reach £67.519 million.

It is very pleasing for the University to have achieved an increase of 8.4% in income from research grants and contracts, which rose to £45.007 million during the 2008/9 year. The level of new research awards has increased significantly in the previous three years, and income from research grants and contracts is expected to increase further in future years.

The budget for the year included a surplus of £3.325 million associated with the sale of land (College Hall). Unfortunately, following the downturn in the economic climate the sale previously agreed is no longer proceeding. This was a significant adverse variance to the overall budget for the year. The University is now considering other options for the future of College Hall.

There were a number of unanticipated cost pressures during the year. The sector-wide pay award of 5% from October 2008 was linked to the RPI measure of inflation and exceeded the estimate of 3.8% included in the budget. The additional cost in the year was around £800,000. The University has also seen a decline in staff turnover, with vacancies lower than the level anticipated in the budget, and a significant fall in the interest receivable on deposits.

Given these various pressures it is very pleasing that the University has achieved an operating surplus of £6.485 million. The cash generated will help in the future development of the University, especially for infrastructure.

Balance Sheet as at 31 July 2009

The main feature of the Balance Sheet is the increase in net assets which have increased by £11.468 million to reach £107.727 million as at 31 July 2009.

The largest increase was in respect of cash and short-term investments which totalled £29.758 million as at 31 July 2009. This was an increase of £7.510 million compared with the previous year end. The level of capital expenditure was less than anticipated in the year because of delays on some schemes and therefore the level of cash and investments was higher than expected in the budget for the year.

Fixed assets increased by £1.179 million in the year. This reflects total capital expenditure of £7.916 million and depreciation of £6.658 million. Capital grants of £4.461 million were received in the year. The main capital items in the year were in respect of ongoing work on the Percy Gee Students' Union building and the partial refurbishment of the School of Law.

Net current assets increased from £1.182 million at 31 July 2008 to £5.098 million as at 31 July 2009.

Cash Flow for the year to 31 July 2009

There was a net cash inflow of £14.324 million from operating activities during the year, which was an excellent result. The other main feature of the cash flow was the capital expenditure described above.

Pension Schemes

The University of Leicester Pension and Assurance Scheme is included in the accounts on the basis of its FRS 17 valuation undertaken at 31 July 2009. This shows that the Scheme had net assets of £79.884 million at 31 July 2009, liabilities of £104.473 million and a resultant deficit of £24.589 million. The value of the assets has fallen from £82.743 million at 31 July 2008 following the decline in the stock markets but the present value of the liabilities has also reduced in the year from last year's level of £112.413 million. The present value of the liabilities has fallen due to both a change in the method used to calculate the liability (using a full valuation rather than a roll-forward method) and a change in the actuarial assumptions used as at 31 July 2009 compared with the assumptions used at the previous year-end. The resultant deficit at 31 July 2009 is therefore lower than the level reported at 31 July 2008.

The latest triennial actuarial valuation of the University of Leicester Pension and Assurance Scheme was completed as at 1 August 2007. This was the first valuation on the new Scheme Funding Basis and the result showed that the Scheme's assets fell short of the value of its technical provisions, being a deficit of £10.2 million. This is equivalent to a 90% funding level, an improvement on the 2004 valuation which showed a 76% level of funding. The University has agreed that it will meet the shortfall by maintaining the current level of employer and employee contributions at 28.7% and 6.35% respectively and by also making an annual payment of £707,000 each year beginning in 2008/9 and ending in 2019/20.

The USS triennial actuarial valuation was undertaken as at 31 March 2008. At the valuation date the value of scheme assets was £28,843 million, and the value of the technical provisions was £28,135 million, indicating a surplus in the scheme. However, to maintain future service benefits an increase in the employer contribution rate from 14% to 16% has been implemented from 1 October 2009. This represents an annual increase in costs of around £1 million per annum for the University.

Treasury Management

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

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

Following the significant reductions in interest rates during the year the level of endowment and interest income in the year fell significantly to £1.040 million from £1.932 million in the previous year.

At 31 July 2009 the University had £35.014 million of borrowing. The University has three loans repayable on different terms. The key features of the loans are: -

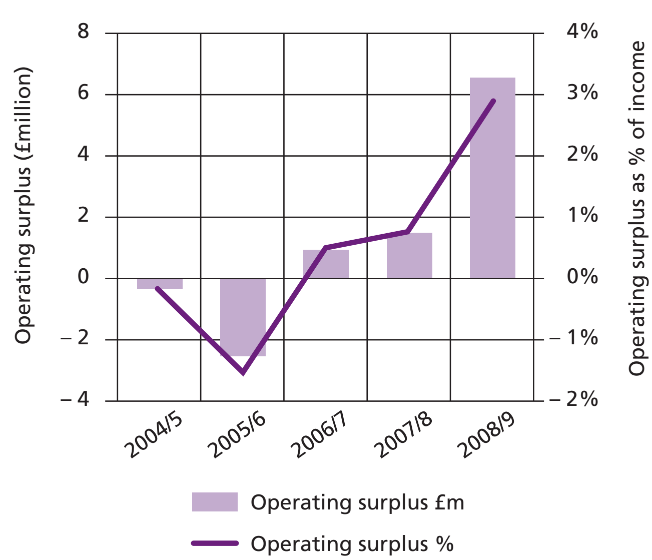
- A loan from Natwest Bank with an outstanding balance of £4.039 million. This loan is repayable in instalments over periods to 2019, with interest payable at a fixed rate of 9.753%.
- There are two loans from Barclays Bank, one repayable in instalments over periods to 2018 with an outstanding balance of £9.215 million and one repayable in instalments over periods to 2031 with an outstanding balance of £21.760 million. The rates of interest on both loans are hedged, with half of the balance capped at 5.5% and the remainder covered by swap arrangements of approximately 4.8%. During the second half of the year the interest cap, fixed at 5.5%, became inoperative as interest rates fell below this level: a further short-term swap was put in place at 2.97%, fixing the average rate paid on each loan at approximately 4.1%.

Financial Strategy

The University aims to continue to build its financial strength. Four years ago a financial strategy was established which aimed at sustainable overall finances, while providing continued funding for the ongoing capital programme.

Within the financial strategy there are two key performance indicators. The first is to achieve a 2% operating surplus, measured as the surplus after depreciation of tangible fixed assets and before taxation as a percentage of total income, each year from 2008/9. The operating surplus results are shown in the chart below.

Figure 2: Operating surplus



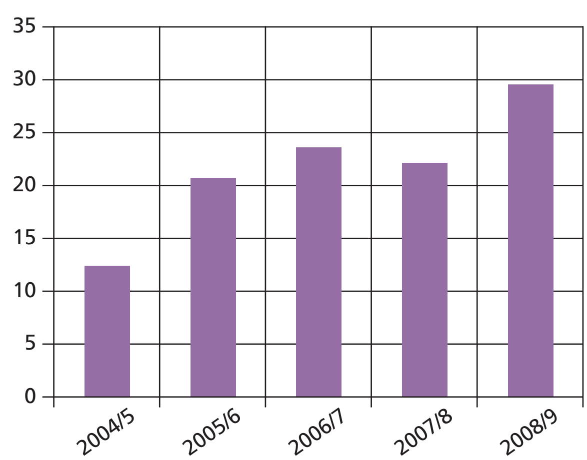
Treasurer's Report for the Year Ended 31 July 2009 (continued)

Following two years of lower operating results in 2004/5 and 2005/6, the years 2006/7 and 2007/8 were acknowledged as transitional years within the University's strategy in terms of achieving the 2% surplus level. In these years not all home/EU undergraduates were paying variable fees and it was not expected that it would be possible to achieve the 2% target until the 2008/9 year. It is very pleasing that an actual result of £6.485 million was achieved, being an operating surplus result of 2.8% against the 2% target.

The second key performance indicator is the level of short-term investments and cash. The aim within the Financial Strategy is to hold a prudent level of cash and short-term investments as measured at the year end. The minimum acceptable level is broadly measured as one-month's payroll costs as the target.

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

Figure 3: Short-term investments and cash balances (£million)



In all years the target has been exceeded. The balance of £29.758 million as at 31 July 2009 is satisfactory and is required to fund working cash requirements and the planned investment in fixed assets over the University's forecast period to 2013.

Future Financial Outlook

The Financial Forecasts to 2012/13 and budget for 2009/10 approved by Council in July 2009 included some challenging targets for the growth of both income and the surplus for the University.

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

- the strong student recruitment in 2008;
- strong application rates for 2009 (now turned into strong recruitment for the year);
- continued high levels of research grant and contract awards;
- a welcome increase in the HEFCE grant from 2009/10, particularly arising from increased research funds reflecting the success in the 2008 RAE.

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

- the higher than expected pay award in October 2008;
- the increased USS contribution rate and an increase in National Insurance payments;
- reductions in HEFCE grant following a reduction in the initial grant announced in March 2009;
- difficulties in selling the College Hall property.

The 2009/10 financial year has a budget for income to grow to £231.107 million and for an operating surplus of £5.799 million, which meets the target of 2% within the University's financial strategy.

The achievement of this challenging budget is, as always, dependent on any number of uncertain factors, never more so than in the present difficult economic climate. However, the 2009/10 year has started well, and indications are that the University has more than achieved its targets for student recruitment.

Key Risks and Opportunities

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

- That there is a further reduction in HEFCE grant as a result of public expenditure reductions:-

  the University has started to consider how it would respond to a significant reduction in grant, and the budget process included consideration of a number of different possible scenarios and the implications.

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

  the University was very successful in campus based student recruitment in 2008 and 2007, with excellent recruitment in many academic departments. The University has strong recruitment in 2009 and continues to show strong application rates for future intakes. The risk of pandemic flu, which could interfere with recruitment, is being monitored closely.

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

the budget shows an increase in research income and contribution in 2009/10. The Senior Management Team and Research Committee will continue to monitor progress against the targets. The data on grant and contract applications and awards in the last two years is very encouraging.

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

  the University now has a strong record of delivering savings where required and the additional target will be pursued by the University in 2009/10.

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

  an interest rate hedging strategy has been put in place by Finance Committee, which is proving very beneficial.

- That there may be further increases in pension costs in future years: -

  the University continues to monitor the position in respect of the national USS scheme and the local schemes.

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

- Better achievement than estimated on overseas students intake.
- Allocation of extra funded student numbers by HEFCE in current or future bidding rounds.
- Achievement of further significant fundraising towards the capital building programme by the development appeal.
- An agreement on pay awards at more modest levels in future years.

Conclusion

The University has invested heavily in its activities and facilities in the last few years, while also embedding a financial strategy of budgeting for a surplus of 2% of income, which is designed to create cash for reinvestment in the University's development. The 2008/9 result represents very satisfactory progress along that path, with good growth in income and a very satisfactory operating surplus achieved, despite certain cost pressures. There is more to do in future years, but the recent successes of the University provide a good basis for progress.

I must end by both thanking and congratulating Michael Chamberlain who after nine years as Treasurer of the University retired on 31 December 2008. His wise advice has made a significant contribution to the improved financial position of the University, which linked to the academic improvement, should assist Leicester through the present challenging economic environment for higher education.

Dr B.E. Towle
Treasurer
24 November 2009

Corporate Governance

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

Summary of the University's Structure of Corporate Governance

The University's Council, the governing body of the University, comprises a number of ex officio, appointed and elected lay and academic persons, the majority of whom are non-executive. The role of the Chair of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The powers of the Council are set out in the Statutes 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. Currently 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 Council 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 are allocated 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 co-opted for their specific expertise. The Committee meets privately with the internal and external auditors for independent discussions as necessary.

During the 2008/9 financial year the University continued its preparations for the academic restructuring of the organisation, from six faculties into four colleges, formally to take effect from 1 August 2009. Alongside this the University also reviewed its formal governance structure and agreed some changes to the remit and constitution of its senior committees. The University continues to have an Audit Committee, a Nominations Committee, and a Remunerations Committee.

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, and this was last updated in October 2008.

The senior management team receives termly reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness briefings. The senior management team and the Audit Committee also receive regular reports from the internal auditors, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. Council receives regular reports on Risk Management and Internal Control from the Vice-Chancellor and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. During the year Council approved amendments to the Corporate Strategic Risk Register to reflect changes in the level of exposure to recognised risks, and the emergence of new risks, as indicated by the Internal Control Reports submitted to Council.

At its meeting in July 2009 Council received a report from the Audit Committee, prepared by senior management advising that Council would be able to issue a statement of full internal control. Audit Committee endorsed this conclusion on the basis of a governance and risk management 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 2009 and up to the date of approval of the annual report and financial statements.

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

Responsibilities of the Council of the University of Leicester

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

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council has reviewed the University's Financial Forecasts for the period to 31 July 2013, prepared under the direction of the Funding Council and on the basis of assumptions made as to the continuance of government grants to be given by the Funding Council. On that basis, Council has a reasonable expectation that the University has adequate resources to continue operations for its foreseeable future. For this reason, the financial statements continue to be prepared on the going concern basis.

The Council has taken reasonable steps to:

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

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

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

internal audit manager provides the University Council with an annual report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

Signed on behalf of the Council
R. H. Bettles, Chair of Council
24 November 2009

Members of Council

The Members of Council who served in the 2008/9 financial year were as follows:

Sir Peter Williams

Professor J. Ainley

Mr P. Ash

Mr R. H. Bettles

His Hon. Judge D. Brunning

Professor R. G. Burgess

Dr M. A. Chamberlain (until 31 December 2008)

Ms C. Fyfe

Ms F. Hussain

Professor P. M. Jackson (until 31 July 2009)

Mr D. M. James

Ms A. Linsell (until 31 July 2009)

Professor M. Lovell

Mr A. M. Mamujee

Professor I. Postlethwaite (until 31 July 2009)

Professor M. P. Thompson

Dr B. E. Towle

Mr D. J. Woodhead (until 31 July 2009)

Ms K. Dyer (from 1 August 2008 until 31 July 2009)

Mr R. Kenyon (from 1 August 2008)

Dr N. Reed (from 1 August 2008)

Professor W. Wynford-Thomas (from 1 October 2008 until 31 July 2009)

Mr P. Bateman (from 1 January 2009)

Dr D. Luckett (from 1 March 2009)

Mr D. Moore (from 1 May 2009)

New appointments since 1 August 2009:

Mr G. Dixon (from 1 August 2009)

Mr P. Mulvihill (from 1 October 2009)

Mr A. Smith (from 1 August 2009)

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

We have audited the financial statements of the University of Leicester for the year ended 31 July 2009 which comprise the Statement of Principal Accounting Policies, the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Reconciliation of Net Cash Flow to Movement in Net Debt and the related notes 1 to 32. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated June 2008. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' 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 and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the Council and Auditors

The Council's responsibilities for preparing the Annual Report and the financial statements in accordance with the University's statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education and other applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Responsibilities of the Council of the University of Leicester.

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 have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education. We also report 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 income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We also report if, in our opinion, the information given in the Treasurer's report is not consistent with the financial statements, if the University has not kept adequate 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 Annual Report as described in the contents section and consider whether it is consistent with the audited financial statements. This other information comprises only the Treasurer's report and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

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 Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group'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:

(a) the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2009 and of the surplus of the Group for the year then ended;

(b) the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;

(c) in all material respects income from Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received; and

(d) in all material respects income has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum, dated June 2008 with the Higher Education Funding Council for England.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Birmingham, UK
24 November 2009

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 group's financial statements.

2. Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and all subsidiary and associated undertakings with material financial transactions for the financial year to 31 July 2009. The consolidated financial statements do not include those of the University of Leicester Students' Union as it is a separate organisation in which the University has no significant influence over policy decisions.

3. Recognition of Income

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

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

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

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

4. Accounting for Charitable Donations

Unrestricted donations

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

Endowment funds

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

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
2. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income.
3. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Donations for fixed assets

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

Gifts in kind, including donated tangible fixed assets

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

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

5. Pension Schemes

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

The PAS is accounted for on the basis of FRS 17. The assets of the scheme are included at market value and scheme liabilities are measured on an actuarial basis using the defined accrued benefit method. The difference between the fair value of assets and liabilities measured on an actuarial basis, are recognised in the University's balance sheet as a pension scheme liability or asset as appropriate. A surplus is only included to the extent that the University is able to recover the surplus either through reduced contributions in the future or through refunds from the scheme. The movement in the scheme asset or liability is split between operating charges, finance items and in the Statement of Total Recognised Gains and Losses.

The USS is a defined benefit scheme which is contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the Scheme in respect of the accounting period.

6. Foreign Currencies

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

7. Leases

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

8. Land and Buildings

Land and Buildings are stated at cost. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful lives of 50 years. Refurbishment costs that meet the requirements of FRS 15 are being capitalised and depreciated over the period of 15 years on a straight line basis. Leasehold buildings are depreciated over 50 years, or if shorter, the period of the lease, on a straight line basis.

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

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

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

9. Equipment

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

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

General equipment including vehicles and computer hardware – *3 years*

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

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

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

10. Heritage Assets

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

11. Investments

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

Statement of Principal Accounting Policies (continued)

12. Restructuring Costs

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

13. Stocks

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

14. Maintenance of Premises

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

15. Provisions

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

16. Taxation Status

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

17. Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No other investments are included in cash.

Liquid resources comprise Current Asset Investments which are readily disposable. They include term deposits arising from the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

18. Agency Arrangements

Funds that the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. These have been disclosed in Note 30.

Consolidated Income and Expenditure Account

	Note	2008/09 £000	2007/08 £000
Income			
Funding Body Grants	1	**67,519**	66,107
Tuition Fees and Education Contracts	2	**69,787**	57,580
Research Grants and Contracts	3	**45,007**	41,513
Other Income	4	**45,890**	38,180
Endowment and Investment Income	5	**1,040**	1,932
Total Income		**229,243**	205,312
Expenditure			
Staff Costs	6	**130,882**	119,473
Other Operating Expenses		**82,076**	74,585
Depreciation	9	**6,658**	6,996
Interest and Other Finance Costs	7	**3,142**	2,761
Total Expenditure	8	**222,758**	203,815
Surplus After Depreciation of Tangible Fixed Assets and Before Tax		**6,485**	1,497
Taxation		**–**	–
Surplus After Depreciation of Assets at Cost, Disposals of Assets and Tax		**6,485**	1,497
Transfer to Accumulated Income in Endowment Funds	11	**(43)**	(147)
Surplus for the Year Retained Within General Reserves	19	**6,442**	1,350

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

Consolidated Statement of Total Recognised Gains and Losses

	Note	2008/09 £000	2007/08 £000
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax		**6,485**	1,497
(Depreciation) of Endowment Asset Investments	11	**(479)**	(575)
New Endowments	18	**14**	13
Actuarial Gain / (Loss) in Respect of Pension Scheme	32	**4,987**	(1,325)
Total Recognised Gains / (Losses) Relating to the Year		**11,007**	(390)

Reconciliation

	2008/09 £000	2007/08 £000
Opening Reserves and Endowments	**12,161**	12,551
Total Recognised Gains / (Losses) for the Year	**11,007**	(390)
Closing Reserves and Endowments	**23,168**	12,161

Balance Sheets

	Note	Consolidated 2009 £000	Consolidated 2008 £000	University 2009 £000	University 2008 £000
Fixed Assets					
Tangible Assets	9	**156,103**	154,924	**156,103**	154,924
Investments		**49**	49	**49**	49
		156,152	154,973	**156,152**	154,973
Endowment Asset Investments	11	**5,005**	5,427	**5,005**	5,427
Current Assets					
Stocks		**1,025**	918	**1,025**	918
Debtors	12	**22,961**	21,212	**23,653**	22,420
Investments	13	**16,060**	12,363	**16,060**	12,363
Cash at Bank and in Hand		**13,698**	9,885	**13,511**	9,692
		53,744	44,378	**54,249**	45,393
Creditors: Amounts Falling Due Within One Year	14	**(48,646)**	(43,196)	**(49,335)**	(44,403)
Net Current Assets		**5,098**	1,182	**4,914**	990
Total Assets Less Current Liabilities		**166,255**	161,582	**166,071**	161,390
Creditors: Amounts Falling Due After More Than One Year	15	**(33,400)**	(35,014)	**(33,400)**	(35,014)
Provisions for Liabilities and Charges	16	**(539)**	(639)	**(539)**	(639)
Net Assets Excluding Pension Liability		**132,316**	125,929	**132,132**	125,737
Pension Liability	32	**(24,589)**	(29,670)	**(24,589)**	(29,670)
Net Assets Including Pension Liability		**107,727**	96,259	**107,543**	96,067
Deferred Capital Grants	17	**84,559**	84,098	**84,559**	84,098
Endowments					
Expendable	18	**1,916**	389	**1,916**	389
Permanent	18	**3,089**	5,038	**3,089**	5,038
		5,005	5,427	**5,005**	5,427
Reserves					
General Reserve Excluding Pension Liability		**42,752**	36,404	**42,568**	36,212
Pension Reserve	32	**(24,589)**	(29,670)	**(24,589)**	(29,670)
General Reserve Including Pension Liability	19	**18,163**	6,734	**17,979**	6,542
Total		**107,727**	96,259	**107,543**	96,067

Professor R.G. Burgess, Vice-Chancellor
R.H. Bettles, Chairman of the Council
Dr B.E. Towle, Treasurer
24 November 2009

Consolidated Cash Flow Statement

	Note	2008/09 £000	2007/08 £000
Net Cash Inflow From Operating Activities	20	**14,324**	4,919
Returns on Investments and Servicing of Finance	21	**(760)**	(60)
Taxation		**–**	–
Capital Expenditure and Financial Investment	22	**(4,485)**	(5,308)
Management of Liquid Resources	23	**(3,697)**	2,490
Financing	24	**(1,526)**	(934)
Increase in Cash in the Year	25	**3,856**	1,107

Reconciliation of Net Cash Flow to Movement in Net Debt

	Note	2008/09 £000	2007/08 £000
Increase in Cash in the Year	25	**3,856**	1,107
Change in Short Term Deposits	25	**3,697**	(2,490)
Change in Debt	25	**1,526**	934
Change in Net Debt		**9,079**	(449)
Net Debt at 1 August	25	**(13,453)**	(13,004)
Net Debt at 31 July	25	**(4,374)**	(13,453)

Notes to the Financial Statements

Note 1 Funding Body Grants

	2008/09	2007/08
	£000	£000
Recurrent Grant		
Higher Education Funding Council for England	57,130	55,723
Training and Development Agency for Schools	1,821	1,895
Specific Grants		
Higher Education Innovation Fund	598	758
Teaching Quality Enhancement Fund	792	419
Skills for Sustainable Communities: Lifelong Learning Network	1,251	1,038
Centres for Excellence in Teaching and Learning	1,260	899
Training and Development Agency for Schools Specific Grants	224	159
Other Specific Grants	1,613	2,275
Deferred Capital Grants Released In Year		
Buildings	1,895	1,624
Equipment	935	1,317
	67,519	66,107

Note 2 Tuition Fees and Education Contracts

	2008/09	2007/08
	£000	£000
Full-time Home and EU Students	26,285	20,415
Full-time International Students	21,541	17,978
Part-time Students	19,706	17,290
Research Training Support Grants	2,255	1,897
	69,787	57,580

Notes to the Financial Statements (continued)

Note 3 Research Grants and Contracts

	2008/09	2007/08
	£000	£000
Research Councils and Charities	18,440	16,864
UK Based Charities	11,934	10,412
UK Government, Health and Hospital Authorities	6,332	5,622
UK Industry, Commerce and Public Corporations	3,136	3,632
EU Government Bodies	3,832	3,477
EU Other	471	717
Other Overseas	739	627
Other Sources	123	162
	45,007	41,513

Note 4 Other Income

	2008/09	2007/08
	£000	£000
Residences, Catering and Conferences	20,010	14,551
Health Authority Funded Posts	12,031	11,617
Other Services Rendered	3,298	2,180
Bookshops	1,831	1,806
Deferred Capital Grants Released in Year	516	429
Other Income	8,204	7,597
	45,890	38,180

Note 5 Endowment and Investment Income

	2008/09	2007/08
	£000	£000
Income from Expendable Endowments	85	77
Income from Permanent Endowments	111	196
Income from Current Asset Investments and Cash at Bank	844	1,659
	1,040	1,932

Note 6 Staff Costs

	2008/09	2007/08
	£000	£000
Staff Costs:		
Salaries	103,645	97,953
Social Security Costs	8,859	8,524
Other Pension Costs	19,879	13,652
	132,383	120,129
FRS 17 Adjustment	(1,501)	(656)
	130,882	119,473
Emoluments of the Vice-Chancellor:		
Salary and Benefits	238	224
Employer's Pension Contributions	47	30
	285	254

The pension contributions to the Universities Superannuation Scheme (USS) were at the standard rate of 14% of salary. The University introduced a salary sacrifice scheme for this pension scheme during the financial year 2007/8. Members of the USS (including the Vice-Chancellor) were automatically included in the salary sacrifice scheme from 1 July 2008, subject to an opt-out choice.

The pension contributions to the Pension and Assurance Scheme (PAS) were at the standard rate of 28.7% of salary. The pension contributions to the Friends Provident Scheme (FPS) were at the standard rate of 6, 8, 10 or 12% of salary depending on the employee contribution rate chosen. The University introduced a salary sacrifice scheme for these pension schemes during the financial year 2008/9. Members of the PAS and FPS were given the option of joining the salary sacrifice scheme from 1 March 2009.

Under the salary sacrifice scheme the employee agrees to reduce their gross contractual pay by the amount of their regular pension contribution. The University then increases its contributions to the pension scheme by an amount equivalent to the employees' regular pension contribution.

Remuneration of other higher-paid staff, excluding employer's pension contributions:
Remuneration of higher-paid staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment were within the following ranges:

	All Staff		Staff on Clinical Scales		Staff on Non-clinical Scales	
	2008/09	2007/08	2008/09	2007/08	2008/09	2007/08
£100,000 - £109,999	19	10	13	6	6	4
£110,000 - £119,999	8	12	7	11	1	1
£120,000 - £129,999	6	8	6	8	–	–
£130,000 - £139,999	4	2	4	2	–	–
£140,000 - £149,999	2	10	2	10	–	–
£150,000 - £159,999	11	6	11	6	–	–
£160,000 - £169,999	6	4	6	4	–	–
£170,000 - £179,999	9	6	9	6	–	–
£180,000 - £189,999	–	1	–	1	–	–
£190,000 - £199,999	2	–	2	–	–	–
£200,000 - £209,999	3	1	3	1	–	–
£210,000 - £219,999	–	2	–	2	–	–
£220,000 - £229,999	–	–	–	–	–	–
£230,000 - £239,999	–	1	–	1	–	–

Notes to the Financial Statements (continued)

Note 6 Staff Costs (continued)

	2008/09 £000	2007/08 £000
Compensation for loss of office paid to former higher-paid staff:		
Compensation	–	65
Pension Benefits	76	–

Average staff numbers (full-time equivalent) by major category:	2008/09 Number	2007/08 Number
Academic and Clinical	781	775
Research and Analogous	414	403
Administration, Library, Computer and Other Related	536	463
Technical	284	282
Clerical, Manual and Ancillary	1,007	955
	3,022	2,878

Note 7 Interest and Other Finance Costs

	2008/09 £000	2007/08 £000
Loans Wholly or Partly Repayable in More Than Five Years	1,735	2,194
Net Charge on Pension Scheme	1,407	567
	3,142	2,761

Note 8 Analysis of Total Expenditure by Activity

	2008/09 £000	2007/08 £000
Academic Departments	98,808	93,092
Academic Services	14,511	12,733
Administration and Central Services	28,544	25,749
Premises	22,758	22,104
Residences, Catering and Conferences	18,466	12,886
Research Grants and Contracts	36,141	33,601
Other Expenses	3,530	3,650
	222,758	203,815
Other Operating Expenses Include:		
External Auditor's Remuneration in Respect of Audit Services:		
KPMG LLP	7	47
Deloitte LLP	48	–
External Auditor's Remuneration in Respect of Non-audit Services:		
KPMG LLP	35	38
Deloitte LLP	5	–
Operating Lease Rentals:		
Land and Buildings	359	119
Other	92	180

Note 9 Tangible Assets

Consolidated and University	Freehold Land and Buildings £000	Leasehold Land and Buildings £000	Equipment £000	Assets in the Course of Construction £000	Total £000
Cost					
At 1 August 2008	159,196	10,354	33,755	1,099	204,404
Additions	3,003	–	552	4,361	7,916
Disposals	(90)	–	(8,124)	–	(8,214)
Transfers at cost	178	–	–	(178)	–
At 31 July 2009	**162,287**	**10,354**	**26,183**	**5,282**	**204,106**
Depreciation					
At 1 August 2008	17,112	1,943	30,425	–	49,480
Charge for the year	3,882	207	2,569	–	6,658
Eliminated on disposals	(11)	–	(8,124)	–	(8,135)
At 31 July 2009	**20,983**	**2,150**	**24,870**	–	**48,003**
Net Book Value					
At 1 August 2008	142,084	8,411	3,330	1,099	154,924
At 31 July 2009	**141,304**	**8,204**	**1,313**	**5,282**	**156,103**

Land and buildings with a net book value of £65,530,107 and cost of £74,322,293 have been funded from Treasury sources: should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the HEFCE.

Leasehold land and buildings includes a 125 year lease commencing 1996 from Wyggeston & Queen Elizabeth I College with a net book value of £5,400,227 and cost of £6,471,154. The remaining leasehold land and buildings represents leases for various Leicester NHS sites.

Freehold land and buildings includes £4,111,043 in respect of land. In accordance with the University's accounting policies this is not depreciated.

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

The depreciation charge has been funded by:	Consolidated & University £000
Deferred Capital Grants Released (*note 17*)	4,000
General Income	2,658
	6,658

Notes to the Financial Statements (continued)

Note 10 Investments

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

Subsidiary Undertakings

Name	*% Shareholding*	*Principal Activity*
Leicester Academic Library Services Limited (ceased trading on 28 February 2007)	100%	Not trading
Leicester Academic Trading Services Limited	100%	Provision of commercial services in association with the University

The consolidated financial statements incorporate the activities of Leicester Academic Library Services Limited and Leicester Academic Trading Services Limited.

Associated Undertakings

Name	*% Shareholding or Other Interest*	*Principal Activity*
Scionix Limited	50%	Development of solvents for industrial purposes
Gamma Technologies Limited	49%	Development of a portable scintography camera
OCB Media Limited	25%	Development and pursuit of electronically distributed high level e-learning material and multimedia products
TTE Systems Limited	40%	Design and development of software modules for embedded systems
Perpetuity Research and Consultancy International Limited	15%	Provision of consultancy to the security sector
Bionutrix LLC. (registered in the USA)	10%	Development of the commercial potential of research in Microbiology
Haemostatix Limited	6%	Rational design and development of drugs
Pulsonix Limited	24%	Design and development of novel rapid battery chargers
Bioastral Limited	27%	To exploit the potential of adapting optical detection technology developed for space research to use in biological research

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

Note 11 Endowment Asset Investments

	Consolidated & University	
	2009	2008
	£000	£000
Balance at 1 August	**5,427**	5,842
Additions: Capital	**14**	13
Income	**43**	147
Depreciation on Revaluation	**(479)**	(575)
Balance at 31 July	**5,005**	5,427
Represented by:		
Securities	**4,123**	4,588
Cash at Bank Held for Endowment Funds	**882**	839
	5,005	5,427

Note 12 Debtors

	Consolidated		University	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Amounts Falling Due Within One Year:				
Research Grants and Contracts	**12,820**	11,881	**12,820**	11,881
Amount Owed by Subsidiary Undertaking	**–**	–	**692**	1,216
Assets Held for Sale	**–**	263	**–**	263
Other Debtors and Prepayments	**9,940**	9,068	**9,940**	9,060
Amounts Falling Due After More Than One Year:				
HEFCE Matched Funding	**201**	–	**201**	–
	22,961	21,212	**23,653**	22,420

Note 13 Current Asset Investments

	Consolidated & University	
	2009	2008
	£000	£000
Fixed Interest Stocks	**652**	704
Equities	**2,270**	2,630
Bank and Building Society Deposits	**13,138**	9,029
	16,060	12,363

The bank and building society deposits shown above are held on time deposits. The weighted average interest rate receivable was 0.93% and these are held for an average period of 35 days. In the previous year (2008) £6.437 million was held in Bank and Building Society Deposits, this is now shown as Cash at Bank and in Hand.

Notes to the Financial Statements (continued)

Note 14 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Mortgages and Other Loans	**1,614**	1,526	**1,614**	1,526
Research Grants and Contracts	**14,744**	10,765	**14,744**	10,765
Payments Received in Advance	**9,239**	10,321	**9,239**	10,321
Other Creditors	**13,639**	11,234	**13,672**	11,233
Social Security and Other Tax Payable	**3,364**	3,023	**3,364**	3,023
Accruals and Deferred Income	**6,046**	6,327	**6,044**	6,327
Amount Owed to Subsidiary Undertaking	**–**	–	**658**	1,208
	48,646	43,196	**49,335**	44,403

Note 15 Creditors: Amounts Falling Due After More Than One Year

	Consolidated & University	
	2009	2008
	£000	£000
Mortgages:		
Barclays Bank Plc repayable by 2018	**8,389**	9,215
Natwest Bank Plc repayable by 2019	**3,791**	4,039
Barclays Bank Plc repayable by 2031	**21,220**	21,760
	33,400	35,014

The mortgages are secured on a portion of freehold land and buildings of the University. The Natwest mortgage is repayable in instalments over periods up to 2019, with interest payable at a fixed rate of 9.753%. The Barclays mortgages are repayable in instalments over the periods up to 2018 and 2031 respectively. The rates of interest on both loans are hedged, with half of the balance capped at 5.5% and the remainder covered by swap arrangements of approximately 4.8%. During the second half of the year the interest cap, fixed at 5.5%, became inoperative as interest rates fell below this level. A further short-term swap was put in place at 2.97%, fixing the average rate paid on each loan at approximately 4.1%. As at 31 July 2009 the cap and swap hedging arrangements had a negative fair value of £479,000.

Bank loans and mortgages are repayable as follows:

	Consolidated & University	
	2009	2008
	£000	£000
In one year or less (*note 14*)	**1,614**	1,526
Between one and two years	**1,707**	1,615
Between two and five years	**5,740**	5,427
In five or more years	**25,953**	27,972
	35,014	36,540

Note 16 Provisions for Liabilities and Charges

	Consolidated & University	
	2009	2008
	£000	£000
Balance at 1 August	**639**	479
Expenditure in the Year	**(174)**	(20)
Transferred from Income and Expenditure Account:		
In Respect of Pension Costs	**74**	180
Balance at 31 July	**539**	639

Included within provisions are amounts payable for enhanced pension costs and severance payments in respect of staff who have elected to take early retirement or voluntary severance. This provision is additional to that disclosed for pension costs under FRS 17 (Note 32). Provisions for enhanced pension costs and severance payments are calculated on the basis of estimated costs for members of staff that sign agreements before 31 July each year. All costs are expected to be incurred within one year. Also included in the balance at 1 August 2008 are the expected costs of decommissioning certain scientific facilities within the University. Based upon knowledge at the date of the signing of the financial statements it is expected that the decommissioning may take place in around five years time.

Note 17 Deferred Capital Grants

	Funding Council £000	Other Grants & Benefactions £000	Total £000
Consolidated and University			
At 1 August 2008			
Buildings	63,956	18,215	82,171
Equipment	995	932	1,927
Total	64,951	19,147	84,098
Cash Received and Receivable			
Buildings	2,901	1,232	4,133
Equipment	134	194	328
Total	3,035	1,426	4,461
Released to Income and Expenditure			
Buildings	1,895	506	2,401
Equipment	935	664	1,599
Total	2,830	1,170	4,000
At 31 July 2009			
Buildings	**64,962**	**18,941**	**83,903**
Equipment	**194**	**462**	**656**
Total	**65,156**	**19,403**	**84,559**

Notes to the Financial Statements (continued)

Note 18 Endowments

	Consolidated & University					
	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2009 Total £000	2008 Total £000
Balances at 1 August:						
Capital	881	3,501	4,382	206	**4,588**	5,150
Accumulated Income	–	656	656	183	**839**	692
	881	4,157	5,038	389	**5,427**	5,842
Reclassification of opening balances	48	(1,700)	(1,652)	1,652	**–**	–
Restated balances at 1 August	929	2,457	3,386	2,041	**5,427**	5,842
New Endowments	–	14	14	–	**14**	13
Investment Income	31	80	111	85	**196**	273
Expenditure	(31)	(46)	(77)	(76)	**(153)**	(126)
	–	34	34	9	**43**	147
(Decrease) in Market Value of Investments	(133)	(212)	(345)	(134)	**(479)**	(575)
Balance at 31 July	796	2,293	3,089	1,916	**5,005**	5,427
Represented by:						
Capital	796	1,812	2,608	1,515	**4,123**	4,588
Accumulated Income	–	481	481	401	**882**	839
	796	2,293	3,089	1,916	**5,005**	5,427

During the year the classification of certain endowments has been changed due to further information becoming available. The analysis above and the list of endowments set out on the next page have been presented on a consistent basis for the year end and prior year.

Note 18 Endowments (continued)

Funds Exceeding £50,000 at 31 July	2009 £000	2008 £000
Restricted Permanent		
Burton Holocaust Centre	**236**	235
Tyler Chair	**137**	140
Faire and Allaway Fund	**109**	108
Marc Fitch Fund	**96**	97
Frank May Funds	**90**	107
Law Development Fund	**75**	74
Hoskins-Duffield Fund	**67**	72
Ellis Foundation	**63**	64
Babette Evans Bequest Fund	**58**	58
Hickman Bequest	**53**	53
Medical Service Award	**53**	52
McKay Memorial Fund	**52**	51
Restricted Expendable		
Wathes Centenary Scholarship Fund	**550**	557
Ulverscroft Endowment	**437**	449
Frears Endowment	**369**	362
Richard Attenborough Centre Fund	**267**	267
Spire Endowment	**141**	140
Unrestricted Permanent		
Lewis Lilley Fund	**240**	246
Church Langton Fund	**205**	212
Simpson Gee Fund	**144**	148
FW Bennett Lectureship	**68**	70
Norton Scholarship	**52**	53

Notes to the Financial Statements (continued)

Note 19 General Reserve Including Pension Liability

	Consolidated £000	University £000
Balance at 1 August 2008	6,734	6,542
Surplus Retained for the Year	6,442	6,450
Actuarial Gain in Respect of Pension Scheme	4,987	4,987
Balance at 31 July 2009	**18,163**	**17,979**

Note 20 Reconciliation of Surplus before Tax and Profit on Disposal of Assets to Net Cash Inflow from Operating Activities

	2008/09 £000	2007/08 £000
Surplus before Tax	**6,485**	1,497
Depreciation *(note 9)*	**6,658**	6,996
Profit on Disposal of Assets	**(18)**	–
Deferred Capital Grants Released to Income *(note 17)*	**(4,000)**	(4,156)
Investment Income *(note 5)*	**(1,040)**	(1,932)
Interest Payable Excluding FRS 17	**1,735**	2,194
(Increase) / Decrease in Stocks	**(107)**	75
(Increase) in Debtors	**(1,418)**	(1,914)
Increase in Creditors	**6,266**	2,235
(Decrease) / Increase in Provisions	**(100)**	160
Pension Costs less Contributions Payable	**(94)**	(89)
Endowment Transfer	**(43)**	(147)
Net Cash Inflow From Operating Activities	**14,324**	4,919

Note 21 Returns on Investments and Servicing of Finance

	2008/09 £000	2007/08 £000
Income from Endowments *(note 18)*	**196**	273
Other Interest Received	**912**	1,647
Interest Paid	**(1,868)**	(1,980)
	(760)	(60)

Note 22 Capital Expenditure and Financial Investment

	2008/09 £000	2007/08 £000
Proceeds from Sales of Fixed Assets	**97**	–
Fixed Asset Investments Acquired	**–**	(36)
New Endowments Received *(note 18)*	**14**	13
Endowment Funds Invested *(note 11)*	**(14)**	(13)
Payments made to Acquire Fixed Assets	**(6,850)**	(17,290)
Deferred Capital Grants Received	**2,268**	12,018
Net Cash Outflow for Capital Expenditure and Financial Investment	**(4,485)**	(5,308)

Note 23 Management of Liquid Resources

	2008/09 £000	2007/08 £000
(Addition to) / Withdrawals from Deposits	**(3,697)**	2,490

Note 24 Financing

	2008/09 £000	2007/08 £000
New Secured Loans	**–**	–
Repayments of Amounts Borrowed	**(1,526)**	(934)
	(1,526)	(934)

Note 25 Analysis of Changes in Net Debt

	At 1 August 2008 £000	Cash Flows £000	Other Changes £000	**At 31 July 2009 £000**
Endowment Assets	839	43	–	**882**
Cash at Bank and in Hand	9,885	3,813	–	**13,698**
	10,724	3,856	–	**14,580**
Short Term Investments	12,363	3,697	–	**16,060**
Debt Due Within One Year	(1,526)	1,526	(1,614)	**(1,614)**
Debt Due After One Year	(35,014)	–	1,614	**(33,400)**
	(13,453)	9,079	–	**(4,374)**

Notes to the Financial Statements (continued)

Note 26 Capital Commitments

	Consolidated		University	
	2009	2008	**2009**	2008
	£000	£000	**£000**	£000
Commitments Contracted at 31 July	**15,106**	2,865	**15,106**	2,865
Authorised but Not Contracted at 31 July	**28,725**	28,821	**28,725**	28,821
	43,831	31,686	**43,831**	31,686

Note 27 Contingent Liability

During the year the University was a member of UM Association (Special Risks) Limited, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year the members are liable for their prorated share spread using a bank facility over 7 years. No liability has yet arisen under this guarantee and the University left the company in August 2009.

Note 28 Lease Obligations

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

	Consolidated & University			
	2009 Land and Buildings	**2009 Equipment**	2008 Land and Buildings	2008 Equipment
	£000	**£000**	£000	£000
Leases expiring:				
Within one year	**–**	**–**	–	180
Between two and five years	**145**	**92**	80	–
Over five years	**213**	**–**	39	–
	358	**92**	119	180

The University has no finance lease commitments.

Note 29 Post Balance Sheet Events

There are no post balance sheet events.

Note 30 Amounts Disbursed as Agent

	Consolidated & University	
	2008/09	2007/08
Access to Learning Fund	**£000**	£000
Income		
HEFCE Grants	**305**	372
Interest	**2**	6
	307	378
Expenditure		
Expenditure in Relation to Eligible Students	**305**	373
Audit Fees	**2**	2
	307	375
Balance at 31 July	**–**	3

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

Training and Development Agency for Schools: Training Bursaries

	2008/09	2007/08
	£000	£000
Cash Received	**1,739**	2,107
Bursaries Paid	**1,630**	1,958
Administrative Costs and Training Grant	**34**	34
VAT on Administrative Costs	**5**	6
	1,669	1,998
Repayable to TDA	**70**	109

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

Notes to the Financial Statements (continued)

Note 31 Related Party Transactions

Due to the nature of the University's operations and the members of Council being drawn from local, public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of Council or a member of the senior management team may have an interest.

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

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

Related parties were identified by examining returns submitted by members of Council and senior management team members for the financial year 2008/09.

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

	Income Transactions £000	Expenditure Transactions £000	Balance due to/(from) the University £000
University Hospitals of Leicester NHS Trust	10,346	3,589	548
University of Leicester Students' Union	–	860	5
Royal Society of Chemistry	145	–	–
Universities and Colleges Admissions Service	–	72	–
British Library	–	56	4
	10,491	4,577	557

An explanation of the business relationship between the University and the related organisations follows:

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

University of Leicester Students' Union
Ordinance XV of the University states 'there shall be a Students' Union of the University… for the promotion of the general interests of students and to afford a recognised channel of communication between students and the University authorities…'. The University contributes towards the running costs of the Union in the form of a grant which represents the majority of the expenditure transactions shown above. The University Council includes the Academic Affairs Officer of the Students' Union.

Royal Society of Chemistry
One member of Council is a member of the Royal Society of Chemistry and is also employed by that organisation.

Universities and Colleges Admissions Service (UCAS)
One member of Council is the Board Chair of UCAS.

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

Note 32 Pension Schemes

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

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

The University's contributions to the various schemes in respect of its own staff, in the years 2008/09 and 2007/08 were:

	2008/09	2007/08
	£000	£000
Universities Superannuation Scheme (USS)	**14,715**	9,420
University of Leicester Pension and Assurance Scheme (PAS)	**3,726**	2,994
University of Leicester Stakeholder Scheme	**399**	244
NHS Pension Scheme	**1,039**	994
	19,879	13,652

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the Scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 130,000 active members and the University has 1,763 active members participating in the scheme.

The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Council; and a minimum of two and a maximum of four are co-opted directors appointed by the management committee under the Scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

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

The latest actuarial valuation of the Scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

Note 32 Pension Schemes (continued)

Universities Superannuation Scheme (USS) (continued)

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic Scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used as follows:

Male members mortality	PA92 MC YoB tables – rated down 1 year
Female members mortality	PA92 MC YoB tables – no age rating

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

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

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

The actuary also valued the Scheme on a number of other bases as at the valuation date. On the Scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the Scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all of the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, using an AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the Scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

Since 31 March 2008, global investment markets have continued to fall and at 31 March 2009, the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS 17 basis, using an AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

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

The sensitivities regarding the principal assumptions used to measure the Scheme liabilities are set out below.

Assumption	**Change in assumption**	**Impact on Scheme liabilities**
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (Move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

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

The trustee believes that over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the Scheme actuary, and considers the views of the employers.

The strong positive cash flow of the Scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the Scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the Scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due as at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The total pension cost for the institution was £14,715,000 (2008: £9,420,000). This includes £1,332,801 (2008: £1,165,331) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

The University has introduced, from 1 July 2008, a salary sacrifice scheme, on an opt-out basis for payments to the USS pension scheme which brings NI savings for both the University and the members. This also changed the balance between employer and employee contributions compared to previous years, resulting in higher employer contributions but a corresponding lower pay cost.

Leicester Pension and Assurance Scheme (PAS)

The University of Leicester Pension and Assurance Scheme was established with effect from 23 July 1962 to provide retirement and death benefits for support staff (staff in levels 1 to 5) of the University of Leicester and for certain employees of the University of Leicester Students' Union. The Scheme is governed by its Fifth Definitive Trust Deed and Schemes Rules of 25 June 1999. Up to 5 April 2006, the Scheme was approved by HMRC as an exempt approved scheme under the provisions of Chapter I Part XIV of the Income and Corporation Taxes Act 1988. From 6 April 2006, the Fund became a "registered pension scheme" for tax purposes. It is registered under the Data Protection Act 1998 (Registration number Z8179467) and with the Pension Scheme Registry (Reference number 100222535). Members are currently contracted out of the State Second Pension Scheme.

Notes to the Financial Statements (continued)

Note 32 Pension Schemes (continued)

Leicester Pension and Assurance Scheme (PAS) (continued)

The Trustees of the Scheme have the responsibility for its proper and correct management. The Scheme is administered by the Pensions Office, which forms part of the Finance Office, at the University of Leicester. All enquiries in relation to the Scheme should be made to the Pensions Office.

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

During the summer of 2008 the University received the results of the triennial actuarial valuation of the PAS, which was undertaken on 1 August 2007.

The outcome of the valuation was that:-

- the value of the Scheme liabilities was £97.867 million
- the Scheme's assets were valued at £87.701 million
- there was therefore a shortfall of £10.166 million
- which represents a funding level (assets divided by liabilities) of 90%

Overall, the Scheme's funding level of 90% represented a significant improvement over the 76% funding level achieved in the 2004 valuation.

The University had agreed to meet the past service shortfall of £10.166 million by continuing to pay a supplementary employer's contribution rate of 6.03% of each employee's pensionable salary for the period from 1 August 2007 up to 31 July 2020 and in addition, from 2008/09, making a direct cash payment of £707,000 into the PAS in each year until 2019/20. The Pensions Regulator considered the University's proposals and has accepted them and these are summarised below:-

Employer's contribution rate for future service	22.67%
Employer's supplementary contribution rate to meet past service shortfall	6.03%
Total Employer's contribution rate	28.70%
Employee's contribution rate for future service	6.35%
Total contribution rate	35.05%
Employer's annual lump sum payment to meet past service shortfall	£707,000

The assumptions used in the 1 August 2007 valuation are as follows:-

Date of latest actuarial valuation	1 August 2007
Actuarial method	Projected Unit
Mortality	Average of medium and long cohort projections
Investment returns per annum	5.4 – 7.4%
Pension increases per annum	3.3%
Salary scale increases per annum	4.3%

The employer contribution rate to finance future Scheme benefits is 22.67% of pensionable earnings. This rate includes an allowance of 2.3% for expenses but excludes the costs of the Pension Protection Fund Levy which the University has agreed to fund directly. The University also pays the cost of insurance premiums for insuring death in service benefits directly.

The University has made three significant changes to the operation of the Scheme during the year.

1. Following discussions with the University, the Scheme introduced a salary sacrifice arrangement for pensions deductions which was implemented in March 2009. This is an "opt in" scheme and results in reduced NI costs for the University and the employees who have joined SMART Pensions and a change in the balance of contributions between the University and the employees.
2. The rate at which pensionable service is calculated, has from 1 April 2009, changed to consist of two parts:
   i. the pension earned in respect of Pensionable Service up to 31 March 2009 will accrue at a rate of 1/60th and will be calculated as follows:

      1/60th x Final Pensionable Salary x Years of Membership to 31 March 2009

   ii. the pension earned in respect of Pensionable Service from 1 April 2009 will accrue at a rate of 1/62.5th and will be calculated as follows:

      1/62.5th x Final Pensionable Salary x Years of Membership from 1 April 2009
3. Currently the employee contribution rate applicable to PAS is, at 6.35% of salary, the same as that payable by members of the Universities Superannuation Scheme (USS). At present the USS have not indicated that they intend to change the employees' contribution rate. However, the University has discussed with staff representatives a possible arrangement whereby any future change in the USS employee contribution rate is matched by an equal change in the PAS employee contribution rate.

In addition to the triennial actuarial valuation the Scheme Actuary undertakes an annual funding update, the latest of which was as at 1 August 2009. The outcome of this was that:-

- the value of the Scheme liabilities was £113.488 million
- the Scheme's assets were valued at £78.891 million
- there was therefore a shortfall of £33.597 million
- which represents a funding level (assets divided by liabilities) of 70%

Overall, the Scheme's funding level of 70% represents a significant deterioration compared to the funding level achieved in the 1 August 2007 valuation of 90%. The shortfall of £33.6 million now shown compares against a shortfall of £10.12 million in August 2007.

If the assumptions made in the PAS' Statement of Funding Principles had held up during the period the expected shortfall at August 2009 would have been of the order of £7.8 million, rather than the £33.56 million now estimated. The reason for this is that the PAS assets have fallen in value and not achieved a return assumed in the actuarial valuation. The actuary has indicated that a further £3.3 million per annum on top of existing payments would be required on current assumptions to clear the deficit by the year 2020.

The valuation currently under consideration was done according to the assumptions agreed by the University and the Trustees in the PAS' Statement of Funding Principles which was confirmed before the actuarial valuation in August 2007. These assumptions are required to be prudent. An alternative view of the financial position of the fund can be found in the accounting FRS 17 assessment. This shows, using a different set of assumptions, that the deficit in the PAS at 1 August 2009 is some £24.6 million. This is still very large, but is a significant way below the current Statement of Funding Principles basis indicating the sensitivity of outcomes to different sets of assumptions.

Set out below is the FRS 17 disclosure as at 31 July 2009, prepared in accordance with the requirements of the Actuarial Guidance Note GN36 – Accounting for Retirement Benefits under Financial Reporting Standard 17 as adopted by the Board for Actuarial Standards.

Notes to the Financial Statements (continued)

Note 32 Pension Schemes (continued)

Leicester Pension and Assurance Scheme (PAS) (continued)

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

	2009	2008	2007
Rate of increase in salaries	**4.25%**	4.75%	4.25%
Rate of increase in pensions in payment:			
Post 5.4.88 GMPs	**3.00%**	3.00%	3.00%
Non-GMPs	**3.25%**	3.75%	3.25%
Discount rate	**6.25%**	6.50%	5.70%
Inflation assumption	**3.25%**	3.75%	3.25%
Expected return on plan assets at 31 July	**6.50%**	7.00%	6.90%
Number of employees opting for early retirement	**21**	11	6

Assumed life expectations on retirement at age 65:

		2009	**2009**
		Males	**Females**
Current Pensioners		21.8 years	24.1 years
Future Pensioners	- retirals in 2009	21.8 years	24.1 years
	- retirals in 2029	23.0 years	25.1 years

Scheme Assets

The value of the assets in the Scheme were:

	2009	2008	2007	2006	2005
	£000	£000	£000	£000	£000
Equities	**46,491**	50,533	56,876	53,569	50,773
Bonds	**32,078**	31,983	30,681	24,422	15,474
Cash	**1,097**	52	–	244	2,061
Insured Assets	**85**	110	–	–	–
Net Current Assets	**133**	65	32	4	–
	79,884	82,743	87,589	78,239	68,308

The expected long-term rates of return were:

	2009	2008	2007	2006	2005
Equities	**6.80%**	7.40%	7.50%	7.00%	7.00%
Bonds	**6.25%**	6.50%	5.70%	5.25%	5.25%
Cash	**4.30%**	4.90%	5.00%	4.75%	4.75%
Insured Assets	**–**	–	–	–	–
Net Current Assets	**–**	–	–	–	–

	2009 £000	2008 £000
Opening Fair Value of Asset Plans	**82,743**	87,589
Expected Return on Assets	**5,895**	6,063
Contributions by Members	**467**	668
Contributions by Employer	**3,726**	3,150
Actuarial Losses	**(9,957)**	(12,168)
Estimated Benefits Paid	**(2,990)**	(2,559)
Total	**79,884**	82,743

The University expects to contribute £3,600,000 to its defined benefit pension plan from 1 August 2009 - 31 July 2010.

Net Pension Liability

The following amounts at 31 July 2009 were measured in accordance with the requirements of FRS 17:

	2009 £000	2008 £000	2007 £000
Fair value of employer assets	**79,884**	82,743	87,589
Present value of Scheme liabilities	**(104,473)**	(112,413)	(116,023)
Net pension liability	**(24,589)**	(29,670)	(28,434)

Present Value of the Defined Benefit Plan:	2009 £000	2008 £000
Opening Defined Benefit Obligation	**112,413**	116,023
Current Service Cost	**2,225**	2,494
Interest Cost	**7,302**	6,630
Contributions by Members	**467**	668
Actuarial Gains	**(14,944)**	(10,843)
Estimated Benefits Paid	**(2,990)**	(2,559)
Closing Defined Benefit Obligation	**104,473**	112,413

Notes to the Financial Statements (continued)

Note 32 Pension Schemes (continued)

Leicester Pension and Assurance Scheme (PAS) (continued)

Analysis of amounts charged to Income and Expenditure Account:

	2008/09 £000	2007/08 £000
Current service cost	(2,225)	(2,494)
Financing:		
– expected return on Scheme assets	5,895	6,063
– interest on expected Scheme liabilities	(7,302)	(6,630)
– net charge	(1,407)	(567)
Net Income and Expenditure Account Cost	(3,632)	(3,061)

	2008/09 £000	2007/08 £000
Actual return on plan assets	(4,062)	(6,105)

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

	2008/09 £000	2007/08 £000
Actual return less expected return on Scheme assets	(9,957)	(12,168)
Experience gains and losses arising on Scheme liabilities	12,999	1,848
Changes in assumptions underlying the present value of Scheme liabilities	1,945	8,995
Total actuarial gain / (loss) recognised	4,987	(1,325)

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

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Deficit on Scheme at 1 August	(29,670)	(28,434)	(30,820)	(27,406)	(22,136)
Movement in year:					
- current service cost	(2,225)	(2,494)	(2,259)	(2,393)	(2,032)
- contributions	3,726	3,150	3,526	3,648	2,940
- past service costs	–	–	–	–	–
- other finance loss	(1,407)	(567)	(663)	(539)	(945)
- actuarial gain / (loss)	4,987	(1,325)	1,782	(4,130)	(5,233)
Deficit on Scheme at 31 July	(24,589)	(29,670)	(28,434)	(30,820)	(27,406)

The gains and losses for the year ended 31 July 2009 were as follows:

	2009	2008	2007	2006	2005
Difference between the expected and actual return on Scheme assets:					
Amount (£000)	**(9,957)**	(12,168)	2,382	3,182	8,669
Percentage of Scheme assets	**(12.5)%**	(14.7)%	2.7%	4.1%	12.7%
Experience gains and (losses) on Scheme liabilities:					
Amount (£000)	**12,999**	1,848	(388)	(4,439)	24
Percentage of the present value of Scheme liabilities	**12.4%**	1.6%	(0.3)%	(4.1)%	0.0%
Total amount recognised in the statement of total recognised gains and (losses):					
Amount (£000)	**4,987**	(1,325)	1,782	(4,130)	(5,233)
Percentage of the present value of Scheme liabilities	**4.8%**	(1.2)%	1.5%	(3.8)%	(5.5)%

The University of Leicester Stakeholder Scheme

The University of Leicester Stakeholder Scheme is a defined contribution scheme offered through Friends Provident. It was established on 1 August 2003 following the closure to new members of the University of Leicester PAS. The Scheme is open to support staff in salary grades level 5 and below. The Scheme has some 238 members.

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

The Scheme's advisers are Aon Consulting Limited. There is an annual management charge of 0.5% p.a. No commission is paid to Aon. The default investment strategy as advised by Aon is 70% Baillie Gifford Managed Fund, 25% Friends Provident Property Fund and 5% Friends Provident Fixed Interest Fund. The Baillie Gifford Managed Fund carries an additional charge of 0.2% on top of the basic Scheme annual management charge. In the 5 years running up to retirement the default investment strategy provides for members' existing funds and ongoing contributions to be phased into the Annuity Protector Fund (gilts) and a Cash Fund through a balanced lifestyle programme resulting in all funds being transferred to gilts and cash at the point of retirement.

During the year the Scheme introduced a salary sacrifice arrangement for pensions deductions which was implemented in March 2009. This is an opt-in scheme.

Also during the year the University reviewed the governance of the Scheme and established the Advisory and Issues Group to provide advice on the Scheme to the University's Finance Committee.

NHS Scheme

The University has 104 employees who are members of the NHS Pension Scheme. The University allows continued membership of the Scheme by its employees working in the Medical School who are already members of the Scheme, and contributes 14% of pensionable earnings to the Scheme. Employees contribute between 5% and 8.5% of pensionable earnings to the Scheme. The employees contribution rate is based on how much the members earn in a year.

Five Year Summary Accounts

Income and Expenditure Account

	2004/05	2005/06	2006/07	2007/08	2008/09
	£000	£000	£000	£000	£000
Income					
Funding Body Grants	52,349	57,432	62,227	66,107	67,519
Tuition Fees and Education Contracts	40,485	40,451	45,938	57,580	69,787
Research Grants and Contracts	34,969	35,856	37,626	41,513	45,007
Other Income	38,561	38,809	38,019	38,180	45,890
Endowment Income and Interest	1,092	1,328	1,712	1,932	1,040
Profit on Disposal of Assets	2,193	779	6,307	–	–
Total Income	169,649	174,655	191,829	205,312	229,243
Expenditure					
Staff Costs	102,268	106,116	110,690	119,473	130,882
Other Operating Expenses	59,052	63,949	64,640	74,585	82,076
Depreciation	4,942	4,891	6,667	6,996	6,658
Interest and Other Finance Costs	1,611	1,631	2,660	2,761	3,142
Total Expenditure	167,873	176,587	184,657	203,815	222,758
Transfer to Endowment Funds	25	48	78	147	43
Surplus/(Deficit) for the Year	1,751	(1,980)	7,094	1,350	6,442

Balance sheet

	2004/05	2005/06	2006/07	2007/08	2008/09
Fixed Assets	98,675	126,734	145,336	154,973	156,152
Endowment Asset Investments	4,958	5,716	5,842	5,427	5,005
Net Current Assets / (Liabilities)	(3,438)	(23,697)	4,457	1,182	5,098
Creditors: Amounts Due After One Year	(4,665)	(4,474)	(36,323)	(35,014)	(33,400)
Provisions for Liabilities and Charges	(158)	(375)	(479)	(639)	(539)
Pension Liability	(27,406)	(30,820)	(28,434)	(29,670)	(24,589)
Total Net Assets	67,966	73,084	90,399	96,259	107,727
Represented By:					
Deferred Capital Grants	60,158	70,628	77,848	84,098	84,559
Endowments	4,958	5,716	5,842	5,427	5,005
General Reserve	30,256	27,560	35,143	36,404	42,752
Pension Reserve	(27,406)	(30,820)	(28,434)	(29,670)	(24,589)
Total Funds	67,966	73,084	90,399	96,259	107,727

Financial Statistics

Sources of Income

% of Total Income	2004/05	2005/06	2006/07	2007/08	2008/09
Grants from Funding Bodies (HEFCE and TDA)	30.8%	32.9%	32.4%	32.2%	29.5%
Tuition Fees and Education Contracts	23.9%	23.2%	23.9%	28.0%	30.5%
Research Grants and Contracts	20.6%	20.5%	19.6%	20.2%	19.6%
Residences, Catering and Conferences	8.9%	8.3%	7.9%	8.3%	8.7%
Other Income	15.8%	15.1%	16.2%	11.3%	11.7%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure					
Staff Costs	60.9%	60.1%	60.0%	58.6%	58.8%
Other Operating Expenses	35.2%	36.2%	35.0%	36.6%	36.8%
Depreciation	2.9%	2.8%	3.6%	3.4%	3.0%
Interest Payable	1.0%	0.9%	1.4%	1.4%	1.4%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus / (Deficit) for the Year as a % of Total Income	1.0%	(1.1)%	3.7%	0.7%	2.8%

Indicators of Financial Strength

Days Ratio of Total General Funds to Total Expenditure *To indicate the number of days total expenditure which could be met from general funds*	66	57	69	65	70
Days Ratio of Net Current Assets / (Liabilities) to Total Expenditure *Number of days an institution could meet expenditure from net assets*	(7)	(49)	9	2	8
% Ratio of Long-Term Liabilities to Total General Funds *Measures the extent to which an institution is funded by long-term debt*	15	16	103	96	78

Indicators of Liquidity and Solvency

% Ratio of Liquid Assets to Current Liabilities *Extent to which current liabilities could be met from cash and liquid investments*	35	32	58	52	64
Ratio of Current Assets to Current Liabilities *Extent to which current liabilities could be met from current assets*	0.9	0.6	1.1	1.0	1.1
Debtor Days *Days of total income (excluding Funding Council income) represented by debtors*	59	63	58	56	47

University *of* Leicester

Leicester LE1 7RH
UK

www.le.ac.uk

This was printed by AVS Print, University of Leicester using vegetable based inks on FSC certified stock