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Treasurer's Report for the Year Ended 31 July 2003

Scope of the Financial Statements

The Financial Statements comprise the consolidated results of the University and its subsidiary, Lucent Limited. The company undertakes activities, which for commercial reasons and taxation reasons, are best channelled through a limited company. The subsidiary pays over its total taxable profits to the University under Gift Aid.

Results for the year

The University delivered an encouraging surplus of income over expenditure for the year of £2.457 million. Overall income grew by 6.3% despite HEFCE grants increasing by only 2.1%. This was the result of very strong growth in overseas and distance learning fee income up 35% and 10% respectively. Research Grants and Contracts income moved up by 2.5%, with disappointing Research Council performance being offset by very strong growth in Health and Hospital Authorities income.

Total staff costs rose by 7.7%, the result of annual pay

increases and increased pension and social security costs. The almost static position in academic staff numbers reflected major investment in some academic areas offset by contraction elsewhere. A voluntary early retirement scheme was in operation throughout the year and resulted in 23 academic and academic related staff agreeing to leave. Overall non staff expenditure at £57.1 million was 7.7% above the previous year generally reflecting increased activity. Recurrent non staff expenditure was boosted in the area of long-term maintenance expenditure recognising that some catching up was required after two years of constrained activity.

The surplus for the year maintains the encouraging performance of the previous year after a period of annual deficits. The University's Council has adopted a policy of building on this improvement with a planned surplus target of 3% of turnover to create a stable platform for the University in terms of being able to take major academic initiatives and to enhance the physical infrastructure.

	2003	2002
	£ 000	£ 000
Income		
Funding Council Grants	44,424	43,482
Academic Fees and Support Grants	36,616	31,816
Research Grants and Contracts	36,970	36,044
Other Operating Income	35,812	33,154
Endowment Income and Interest Receivable	1,234	1,346
	<hr/>	<hr/>
Total Income	155,056	145,842
	<hr/>	<hr/>
Total Expenditure	152,599	142,307
	<hr/>	<hr/>
Surplus for the year on Historical Cost Basis	2,457	3,535
	<hr/>	<hr/>

	2003	2002
	£ 000	£ 000
Balance Sheet		
Fixed Assets	69,586	59,900
Endowment Asset Investments	3,653	3,606
Net Current Assets	8,623	8,248
Long Term Creditors	(8,143)	(8,422)
Provisions	(1,449)	(463)
	<hr/>	<hr/>
Total	72,270	62,869
	<hr/>	<hr/>
Net Cash Inflow From Operating Activities	3,336	10,290
	<hr/>	<hr/>
Capital Expenditure	13,428	8,045
	<hr/>	<hr/>

Treasurer's Report for the Year Ended 31 July 2003 (continued)

The University's balance sheet remained sound and stable. Fixed assets increased, reflecting the capital programme (land and buildings expenditure £10.790 million and £2.638 million of equipment purchases). Endowment Asset Investments remained broadly stable, which was comforting, following the significant depreciation that occurred in 2001-02, following the decline in the stock market. Liquidity remained strong with net current assets increasing over the previous year's level.

University of Leicester Pension and Assurance Scheme

The future of the pension scheme for support staff was reviewed by Council during the year after the latest actuarial valuation necessitated an increase in the University's contribution rate to 18.65%. Having regard to the risks carried in maintaining a final salary scheme it was decided that the existing scheme should be closed to new members from 31 July 2003. This has had the effect of increasing the employer's contribution rate to the now closed scheme to 21.35%. However, Council believe that over time the financial risks will reduce.

The calculated deficit, according to the rules of the Accounting Standard FRS17, increased during the year to £24.5 million. This Accounting Standard is resulting in significant volatility from year to year but it should be noted that the scheme's assets grew during the year by £5.5 million.

From 1st August 2003 a money purchase scheme has been introduced for new support staff with a University contribution rate of up to 12%.

Capital Projects

During the year the University accelerated the pace of the Capital building programme. Projects to refurbish the Adrian and George Porter buildings were completed for Bioscience and Chemistry. A new Space Science and Mathematical Modelling Centre costing £3.7 million was opened. These projects were partly funded by HEFCE specific grants as well as the University. Work has progressed smoothly on the building of the £19.7 million Biomedical Science Building.

Whilst capital commitments disclosed in the accounts show total committed and authorised expenditure of £38.4 million, £16.8 million will be financed by grants and £18.6 million by loan finance with the balance being funded from the University's own resources.

These projects form part of a more extensive long-term Development Plan with a total cost of over £330 million over the next 30 years. The next major building project currently at the planning stage is a total refurbishment and extension to the University Library. One project, the

redevelopment of student residences at Oadby, has had to be delayed due to planning difficulties.

Investment performance

The University's investments comprise of short to medium term deposit balances and endowment assets. The former are mainly held in money market investments while the endowment assets are invested directly in equity and bonds as well as unitised equity and bond funds. Apart from short-term cash balances, these investments are managed by external managers.

Early in the year £1.8 million of monies held on deposit during the previous year was added to the equity and bond portfolio already held.

The capital performance of the University's long-term investments stabilised after the falls of the previous two years. The return on the externally managed equity and bond holdings outperformed their benchmark as was also the case with the unit trusts. The return for the year on the total deposit balances was 3.77% reflecting the overall lower level in base rates compared with the previous year, the reduction of income being partially offset by some growth in average cash balances.

Cash Flow

The net cash flow from operating activities at £3.336 million was a very satisfactory performance though not repeating the much higher position of 2001/02 when special factors boosted the position. Much of the growth in capital expenditure was covered by grants from HEFCE resulting in the capital programme being fully funded without a reduction in deposit balances or new external loans being taken out. The University continues to have sufficient cash resources to fund its currently agreed academic building programme. In addition its external loan funding at £8 million remains low by comparison with peer institutions and gives significant capacity to borrow if projects with robust financial returns emerge.

Prospects

The recurrent surplus for 2002/03 exceeded expectations and therefore the cash flow was more positive than forecast.

With significant policy changes in Government funding for both teaching and research, the financial outlook is extremely challenging, particularly when striving to achieve the surpluses necessary year on year to finance developments in its academic programmes and infrastructure.

Whilst the University is receiving transitional funding in 2003/04 to assist in the move to a lower level of HEFCE funding, the situation is exacerbated by the continuing

Treasurer's Report for the Year Ended 31 July 2003 (continued)

increase in costs at levels substantially above the increase in the inflation assumptions made in Government funding.

Against this background the University is critically assessing its current expenditure priorities and working further to build income in its areas of strength, overseas students, distance learning activities and professional courses and training. In addition the University will continue to play a full part in contributing to the Government goal of a 50% participation rate and is well placed to develop innovative foundation degree courses. On the research front, the University is working to improve its performance at the next research assessment exercise in 2007 and more immediately making a major effort to enhance the return it makes on its very substantial research grants and contracts activity.

One positive increase in income from 2006/07 will be, subject to Parliamentary approval, the introduction of variable fees of up to £3,000. The University supports this proposal as a way of injecting much needed resources into Higher Education to fund existing activities.

It can be seen, therefore, that the University faces major challenges in maintaining its improved financial position alongside continuing to enhance its academic reputation. Without a sound financial base the successes of recent times will not be sustainable.

Conclusion

The growth in the University turnover of 26% over three years and a return to financial stability with the generation of annual surpluses is a major achievement. The University is alive to the challenges ahead and focussed on continuing to move forward in a very positive way. The skill and commitment of all the staff who have achieved the financial stability and academic improvement of the University that has been achieved gives me confidence that the Institution has the ability to prosper in the challenging years ahead.

M.A. Chamberlain
Treasurer

16 December 2003

Corporate Governance

The following statement is given to assist readers of the financial statements to obtain an understanding of the governance procedures applied by the University Council. The University endeavours to conduct its business in accordance with the seven Principals identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities that has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland. Council has put in place arrangements to review its procedures against the above guidance and against appropriate good practice.

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

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

There are three committees concerned with reviewing the salaries of professorial staff and senior

administrative officers: Remunerations Committee A is responsible for setting the remuneration of the Vice-Chancellor, the Registrar and Secretary and the Director of Finance; Remuneration Committee B is responsible for setting the remuneration of non-clinical professors and staff on Grade 6 of the Academic-Related pay scales (exceptionally, and only at the request of the Dean of the University of Leicester Medical School, it will consider and set the remuneration of clinical professors); Remuneration Committee C keeps under review the arrangements for responsibility payments to office holders and for determining the proper level of such payments.

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

Risk Management

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

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

Corporate Governance (continued)

and the Audit Committee also receive regular reports from internal audit and from the Safety Committee, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The Council's agenda includes a regular item for consideration of risk and control and Council also receives reports thereon from members of senior management and the Audit Committee. The emphasis is on obtaining

the relevant degree of assurance and not merely reporting by exception.

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

The University is partially compliant with the relevant requirements at the year end and believes that it will be in a position to make a full compliance statement next year.

Responsibilities of the University's Council

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

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council has reviewed the University's Financial Forecasts for the period to the 31st July 2006, 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 accounts continue to be prepared on the going concern basis.

The Council has taken reasonable steps to:

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

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

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

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

Signed on behalf of the Council
J.C. Foster, Chairman of Council
16 December 2003

Responsibilities of the University's Council (continued)

Members of Council

The Members of Council as at 31 July 2003 were as follows:

V. Asi	F. Hussain
Sir Michael Atiyah	R. E. Hyde
G. W. W. Barker	P. M. Jackson
R. H. Bettles	J. A. Kapasi
W. J. Brammar	I. Lauder
D. Brunning	P. Lewis
R. G. Burgess	Sir Tom McKillop
M. A. Chamberlain	A. J. Matthew
G. A. Cinderby	S. M. Pearce
P. Cottingham	N. Sharma
K. Fogelman	D. J. Taylor
J. C. Foster	B. E. Towle
J. Fothergill	A. R. Weston
P. T. Hammersley	R. C. A. White
J. H. Holloway	D. J. Woodhead
R. A. Howe	A. Yarrington

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

We have audited the financial statements on pages 11 to 33, which comprise consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

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

Respective Responsibilities of the University's Council and the auditors

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

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

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

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

Basis of Opinion

We conducted our audit in accordance with Auditing

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

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

Opinion

- the financial statements give a true and fair view of the state of affairs of the University and the group as at 31 July 2003 and of the group's surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions;
- in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2003 have been applied for the purposes for which they were received;
- in all material respects, income during the year ended 31 July 2003 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

KPMG LLP

16 December 2003
Chartered Accountants
Registered Auditor

1 Waterloo Way
Leicester
LE1 6LP

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 in Higher Education Institutions (SORP) and applicable Accounting Standards.

2. Basis of Consolidation

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

3. Recognition of Income

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

4. Pension Schemes

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

5. Foreign Currencies

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

6. Leases

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

7. Land and Buildings

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

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

8. Equipment

Equipment costing less than £15,000 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, as follows:

General equipment including vehicles and computer hardware – 3 years

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

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

Statement of Principal Accounting Policies (continued)

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

9. Investments

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

10. Restructuring Costs

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

11. Stocks

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

12. Maintenance of Premises

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

13. Provisions

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

14. Taxation Status

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

15. Cash Flows and Liquid Resources

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

Consolidated Income and Expenditure Account

		2002/03	2001/02
Income	Note	£000	£000
Funding Council Grants	1	44,424	43,482
Academic Fees and Support Grants	2	36,616	31,816
Research Grants and Contracts	3	36,970	36,044
Other Operating Income	4	35,812	33,154
Endowment Income and Interest Receivable	5	1,234	1,346
		<hr/>	<hr/>
Total Income		155,056	145,842
		<hr/>	<hr/>
Expenditure			
Staff Costs	6	90,917	84,422
Depreciation	11	3,719	3,625
Other Operating Expenses	7	57,144	53,048
Interest Payable	8	819	1,212
		<hr/>	<hr/>
Total Expenditure	10	152,599	142,307
		<hr/>	<hr/>
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost and Before Tax		2,457	3,535
Profit on Disposal of Assets		–	–
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost and Disposal of Assets but Before Tax		2,457	3,535
Taxation		–	–
		<hr/>	<hr/>
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax	9	2,457	3,535
		<hr/>	<hr/>

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

Statement of Consolidated Total Recognised Gains and Losses

	Note	2002/03 £000	2001/02 £000
Surplus on Continuing Operations After Depreciation of Fixed Assets at Cost, Disposal of Assets and Tax	9	2,457	3,535
Depreciation of Endowment Asset Investments	20	(24)	(625)
Endowment Income Retained for Year	20	70	39
New Endowments	20	1	182
Total Recognised Gains Relating to the Year		2,504	3,131
Reconciliation		2002/03 £000	
Opening Reserves and Endowments		27,784	
Total Recognised Gains for the Year		2,504	
Closing Reserves and Endowments		30,288	

Balance Sheets

	Note	Consolidated		University	
		2003 £000	2002 £000	2003 £000	2002 £000
Fixed Assets					
Tangible Assets	11	69,585	59,900	69,585	59,900
Investments	12	1	–	1	–
		<u>69,586</u>	<u>59,900</u>	<u>69,586</u>	<u>59,900</u>
Endowment Asset Investments	13	<u>3,653</u>	<u>3,606</u>	<u>3,653</u>	<u>3,606</u>
Current Assets					
Stocks		1,097	1,214	1,097	1,214
Debtors	14	12,711	12,251	12,747	12,303
Investments	15	22,907	21,832	22,907	21,832
Cash at Bank and in Hand	29	1,443	1,201	1,405	1,147
		<u>38,158</u>	<u>36,498</u>	<u>38,156</u>	<u>36,496</u>
Creditors: Amounts Falling Due Within One Year	16	<u>(29,535)</u>	<u>(28,250)</u>	<u>(29,533)</u>	<u>(28,248)</u>
Net Current Assets		<u>8,623</u>	<u>8,248</u>	<u>8,623</u>	<u>8,248</u>
Total Assets Less Current Liabilities		<u>81,862</u>	<u>71,754</u>	<u>81,862</u>	<u>71,754</u>
Creditors: Amounts Falling Due After More Than One Year	17	(8,143)	(8,422)	(8,143)	(8,422)
Provisions for Liabilities and Charges	18	<u>(1,449)</u>	<u>(463)</u>	<u>(1,449)</u>	<u>(463)</u>
Net Assets		<u>72,270</u>	<u>62,869</u>	<u>72,270</u>	<u>62,869</u>
Deferred Capital Grants	19	<u>41,982</u>	<u>35,085</u>	<u>41,982</u>	<u>35,085</u>
Endowments					
Specific	20	2,860	2,807	2,860	2,807
General	20	793	799	793	799
		<u>3,653</u>	<u>3,606</u>	<u>3,653</u>	<u>3,606</u>
Reserves					
General Reserve	21	<u>26,635</u>	<u>24,178</u>	<u>26,635</u>	<u>24,178</u>
Total		<u>72,270</u>	<u>62,869</u>	<u>72,270</u>	<u>62,869</u>

Professor R.G. Burgess, Vice-Chancellor
J.C. Foster, Chairman of the Council
Dr M.A. Chamberlain, Treasurer
16 December 2003

Consolidated Cash Flow Statement

	Note	2002/03 £000	2001/02 £000
Net Cash Inflow From Operating Activities	25	3,336	10,290
Returns on Investments and Servicing of Finance	26	553	173
Taxation		–	–
Capital Expenditure and Financial Investment	27	(2,245)	(2,907)
Cash Inflow before Use of Liquid Resources and Financing		1,644	7,556
Management of Liquid Resources		(1,145)	(4,688)
Financing	28	(257)	(2,802)
Increase in Cash	29	242	66

Reconciliation of Net Cash Flow to Movement in Net Funds

	Note	2002/03 £000	2001/02 £000
Increase in Cash in the Period	29	242	66
Increase in Short Term Deposits	29	1,075	4,649
Repayment of Debt	29	257	2,802
Change in Net Funds Resulting from Cash Flows		1,574	7,517
Net Funds at 1 August	29	14,354	6,837
Net Funds at 31 July	29	15,928	14,354

Notes to the Accounts

Note 1 Funding Council Grants

	2002/03	2001/02
	£000	£000
HEFCE:		
Recurrent Grant:		
Basic Grant	39,580	39,182
Special Initiatives	2,119	1,874
Buildings: Deferred Capital Grants (<i>note 19</i>)	728	630
Equipment: Deferred Capital Grants (<i>note 19</i>)	–	–
Teacher Training Agency:		
Recurrent	1,733	1,620
Other	264	176
	<hr/>	<hr/>
	44,424	43,482
	<hr/>	<hr/>

Note 2 Academic Fees and Support Grants

	2002/03	2001/02
	£000	£000
Full-Time Course Fees:		
From Home and European Union Students	10,512	10,078
From Students Outside the European Union	11,370	8,282
Part-Time Course Fees:		
On Campus: From Home and European Union Students	1,616	1,570
From Students Outside the European Union	676	651
Distance Learning: From Home and European Union Students	6,288	5,131
From Students Outside the European Union	5,751	5,801
Research Training Support Grants	403	303
	<hr/>	<hr/>
	36,616	31,816
	<hr/>	<hr/>

Note 3 Research Grants and Contracts

	2002/03	2001/02
	£000	£000
Research Councils	14,992	16,689
UK Based Charities	9,264	9,362
UK Government, Health and Hospital Authorities	7,203	5,418
UK Industry, Commerce and Public Corporations	2,385	2,444
EU Government Bodies	1,001	668
EU Other	448	243
Other Overseas	1,469	1,062
Other Sources	208	158
	<hr/>	<hr/>
This includes income of £2,042,000 (2001/02-£2,137,000) from deferred capital grants.	36,970	36,044
	<hr/>	<hr/>

Notes to the Accounts (continued)

Note 4 Other Operating Income

	2002/03	2001/02
	£000	£000
Residences and Catering	13,233	12,478
Health Authority Funded Posts	9,784	9,541
Other Services Rendered	4,259	3,178
Bookshops	2,733	2,735
Other Income	5,803	5,222
	<hr/>	<hr/>
	35,812	33,154
	<hr/>	<hr/>

Note 5 Endowment Income and Interest Receivable

	2002/03	2001/02
	£000	£000
Income from Current Asset Investments	1,129	1,221
Specific Endowments (<i>note 20</i>)	70	87
General Endowments (<i>note 20</i>)	35	38
	<hr/>	<hr/>
	1,234	1,346
	<hr/>	<hr/>

Note 6 Staff

	2002/03 £000	2001/02 £000
Staff Costs:		
Wages and Salaries	75,440	70,841
Social Security Costs	5,962	5,485
Other Pension Costs	9,515	8,096
	<u>90,917</u>	<u>84,422</u>
Emoluments of the Vice-Chancellor		
Salary and Benefits	135	124
Employer's Pension Contributions	17	16
	<u>152</u>	<u>140</u>

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

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

	All Staff		Staff on Clinical Scales		Staff on Non-clinical Scales	
	2002/03	2001/02	2002/03	2001/02	2002/03	2001/02
£70,001 – £80,000	39	28	36	24	3	4
£80,001 – £90,000	14	7	11	7	3	–
£90,001 – £100,000	18	17	18	17	–	–
£100,001 – £110,000	5	3	5	3	–	–
£110,001 – £120,000	8	8	8	8	–	–
£120,001 – £130,000	1	1	1	1	–	–
£130,001 – £140,000	3	4	3	4	–	–
£140,001 – £150,000	1	1	1	1	–	–
£150,001 – £160,000	1	–	1	–	–	–

Enhanced Pension Benefits

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

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

	2002/03	2001/02
Academic and Clinical	708	705
Research and Analogous	470	449
Administration, Library, Computer and Other Related	357	340
Technical	344	357
Clerical, Manual and Ancillary	1,065	1,041
	<u>2,944</u>	<u>2,892</u>

Notes to the Accounts (continued)

Note 7 Other Operating Expenses

	2002/03	2001/02
	£000	£000
Equipment and Furniture	7,134	9,226
Maintenance and Minor Works	7,043	5,306
Energy, Fuel and Water	2,172	2,259
Rent, Rates and Insurance	1,461	1,107
Books, Periodicals and General Publications	4,020	3,806
Stationery, Printing, Postage and Telephone	2,752	2,578
Consumables and Laboratory Expenditure	4,535	4,452
Staff Support and Travel	8,525	7,626
Pensions and Premature Retirement Costs	1,728	726
Students' Union Grant	555	556
Fellowships, Scholarships and Prizes	2,438	1,905
Catering Supplies	1,481	1,422
Auditors' Remuneration for Audit Work	27	26
Auditors' Remuneration for Non Audit Work	26	113
Other Expenditure	13,247	11,940
	<hr/>	<hr/>
	57,144	53,048
	<hr/>	<hr/>

Note 8 Interest Payable

	2002/03	2001/02
	£000	£000
Mortgage Loans:		
Repayable Wholly or Partly in More Than Five Years	819	1,212
	<hr/>	<hr/>

Note 9 Surplus on Continuing Operations for the Period

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

	2002/03	2001/02
	£000	£000
University's Surplus for the Period	2,427	3,507
Surplus Generated by the Subsidiary Undertaking and Transferred to the University under the Gift Aid Scheme	30	28
	<hr/>	<hr/>
	2,457	3,535
	<hr/>	<hr/>

Note 10 Analysis of 2002/03 Expenditure by Activity

	Staff Costs	Depreciation	Other Operating Expenses	Interest Payable	Total
	£000	£000	£000	£000	£000
Academic Departments	52,066	319	14,928	–	67,313
Academic Services	4,725	76	3,445	–	8,246
Research Grants and Contracts	16,931	2,042	12,662	–	31,635
Residences and Catering	3,917	315	7,961	563	12,756
Premises	3,855	954	6,697	256	11,762
Administration and Central Services	7,122	13	7,384	–	14,519
Other Expenditure	2,301	–	4,067	–	6,368
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total per Income and Expenditure Account	90,917	3,719	57,144	819	152,599
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

Note 11 Tangible Assets

	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£000	£000	£000	£000
Consolidated and University Cost				
At 1 August 2002	56,679	7,043	16,042	79,764
Additions	7,858	2,932	2,638	13,428
Disposals	(28)	–	–	(28)
At 31 July 2003	64,509	9,975	18,680	93,164
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 August 2002	5,240	709	13,915	19,864
Charge for the year	1,056	200	2,463	3,719
Eliminated on Disposals	(4)	–	–	(4)
At 31 July 2003	6,292	909	16,378	23,579
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 1 August 2002	51,439	6,334	2,127	59,900
At 31 July 2003	58,217	9,066	2,302	69,585
	<hr/>	<hr/>	<hr/>	<hr/>

Land and buildings includes an amount of £7,903,062 in respect of assets under construction (2002 - £3,274,332). These assets are not depreciated until brought into use.

Land and buildings with a net book value of £35,222,271 and cost of £39,128,585 have been funded from Treasury sources: should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the HEFCE.

Consolidated and University
£000

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

2,843
876

3,719

Notes to the Accounts (continued)

Note 12 Investments

The consolidated financial statements incorporate the accounts of Lucent Limited, a 100% owned subsidiary which has a nominal share value of £100. Financial statements for the year ended 31 July 2003 show that this company had aggregate capital and reserves of £393.

Lucent Limited is engaged in the provision of research and development, consultancy, training and associated work. The company is registered in England and Wales, and prepares accounts to 31 July.

During the year the University purchased 25% of the issued ordinary capital of UK Healthcare Education Partnership Limited at a nominal value of £1,000. The company is engaged in post registration education of nurses and health care professionals across the United Kingdom and internationally, but had not traded up to 31 July 2003.

The University has shareholdings in the following spin-out companies all registered in England and Wales. The trading activities of these companies are not material to the the University's financial statements and have therefore been excluded from the consolidation.

<i>Name</i>	<i>% Shareholding</i>	<i>Principal Activity</i>
Scionix Limited	50%	Development of solvents for industrial purposes
Perpetuity Research and Consultancy International Limited	24.9%	Provision of consultancy to the security sector
OCB Media Limited	24%	Development and pursuit of electronically distributed high level e-learning material and multimedia products
Xcam Limited	5%	Design and manufacture of computers and electronic equipment

Note 13 Endowment Asset Investments

	Consolidated	
	2003	2002
	£000	£000
Balance at 1 August	3,606	4,010
Additions: Capital	1	182
Income	70	39
Depreciation on Revaluation	(24)	(625)
Balance at 31 July	3,653	3,606
Analysis of investments:		
Listed on London Stock Exchange		
Government Stocks	76	168
Fixed Interest Stocks	920	756
Equities	1,736	1,825
Not Listed		
Equities	129	129
Cash Held on Deposit	792	728
	3,653	3,606

Note 14 Debtors

	Consolidated		University	
	2003	2002	2003	2002
	£000	£000	£000	£000
Research Grants and Contracts	6,679	6,533	6,679	6,533
Other Debtors and Prepayments	6,032	5,718	6,068	5,770
	<hr/>	<hr/>	<hr/>	<hr/>
	12,711	12,251	12,747	12,303
	<hr/>	<hr/>	<hr/>	<hr/>

Note 15 Current Asset Investments

	Consolidated	
	2003	2002
	£000	£000
Government Stocks	28	65
Fixed Interest Stocks	994	332
Equities	1,964	775
Bank and Building Society Deposits	19,921	20,660
	<hr/>	<hr/>
	22,907	21,832
	<hr/>	<hr/>

Note 16 Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2003	2002	2003	2002
	£000	£000	£000	£000
Mortgages and Other Loans	279	257	279	257
Payments Received on Account	11,396	12,007	11,396	12,007
Creditors	10,628	7,901	10,626	7,899
Social Security and Other Tax Payable	2,618	2,333	2,618	2,333
Accruals and Deferred Income	4,614	5,752	4,614	5,752
	<hr/>	<hr/>	<hr/>	<hr/>
	29,535	28,250	29,533	28,248
	<hr/>	<hr/>	<hr/>	<hr/>

Notes to the Accounts (continued)

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

		Consolidated
	2003	2002
	£000	£000
Mortgages:		
Repayable by 2019	5,001	5,148
Repayable by 2018	3,142	3,274
	<hr/>	<hr/>
	8,143	8,422
	<hr/> <hr/>	<hr/> <hr/>

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

Note 18 Provisions for Liabilities and Charges

	Consolidated
	2003
	£000
Pensions:	
Balance at 1 August 2002	463
Expenditure in the Period	(406)
Transferred from Income and Expenditure Account	1,392
	<hr/>
Balance at 31 July 2003	1,449
	<hr/> <hr/>

Included within provisions are amounts payable in respect of staff who have elected to take early retirement and amounts potentially payable in respect of pensions rights of part-time employees.

Note 19 Deferred Capital Grants

		Consolidated	
	Funding Council £000	Other Grants & Benefactions £000	Total £000
At 1 August 2002			
Buildings	29,451	3,846	33,297
Equipment	–	1,788	1,788
	<hr/>	<hr/>	<hr/>
Total	29,451	5,634	35,085
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Cash Received and Receivable			
Buildings	6,500	1,213	7,713
Equipment	–	2,027	2,027
	<hr/>	<hr/>	<hr/>
Total	6,500	3,240	9,740
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Released to Income and Expenditure Account			
Buildings	728	73	801
Equipment	–	2,042	2,042
	<hr/>	<hr/>	<hr/>
Total	728	2,115	2,843
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 July 2003			
Buildings	35,223	4,986	40,209
Equipment	–	1,773	1,773
	<hr/>	<hr/>	<hr/>
Total	35,223	6,759	41,982
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Notes to the Accounts (continued)

Note 20 Endowments

	Specific £000	Consolidated General £000	Total £000
At 1 August 2002	2,807	799	3,606
Additions	1	–	1
Depreciation of Endowment Asset Investments	(18)	(6)	(24)
Income for Year	140	35	175
Transferred to Income and Expenditure Account (<i>note 5</i>)	(70)	(35)	(105)
At 31 July 2003	2,860	793	3,653

Funds Exceeding £30,000

	2003 £000	2002 £000
Specific	£000	£000
Ulverscroft Endowment	388	387
Church Langton Fund	196	192
Frears Endowment	270	259
Stead and Simpson Fund	176	169
Spire Endowment	118	120
Hickman Bequest	43	46
Frank May Funds	102	99
Faire and Allaway Fund	94	90
Burton Holocaust Centre	215	202
Ellis Foundation	56	55
Street Travel Award	41	40
Medical Service Award	40	39
Bennett and Family Fund	36	36
Law Jubilee Fund	57	54
Marc Fitch Fund	80	77
McKay Memorial Fund	38	36
Redfearn Memorial Fund	36	35
Janner Travel Fund	34	32
Sylvester-Bradley Award	33	32
Richard Attenborough Centre Fund	205	195
H.S. Bennett	31	29
Other Endowments	743	717
Depreciation of Above Funds	(172)	(134)
	2,860	2,807
General		
Robert Rowley Fund	139	138
Lewis Lilley Fund	210	208
Simpson Gee Fund	127	126
Tyler Chair	120	119
Bennett Lectureship	60	59
Norton Scholarship	46	45
Other Endowments	44	44
Appreciation of Above Funds	47	60
	793	799

Note 21 General Reserve

Surplus after depreciation of fixed assets at cost and tax
Balance at 1 August 2002

Balance at 31 July 2003

Consolidated

£000

2,457

24,178

26,635

Note 22 Capital Commitments

Commitments Contracted at 31 July

Authorised but Not Contracted at 31 July

Consolidated

2003

£000

17,223

21,172

38,395

2002

£000

1,757

22,507

24,264

Note 23 Contingent Liability

Bank Guarantee in Respect of Subsidiary Company
(Lucent Limited)

Consolidated

2003

£000

75

2002

£000

75

Note 24 Lease Obligations

Operating lease commitments in respect of equipment
for the 2003 financial year, on leases expiring:

Within one year

Between two and five years

Over five years

Consolidated

2003

£000

192

658

102

952

2002

£000

200

905

–

1,105

The University has no finance lease commitments.

Notes to the Accounts (continued)

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

	2003	2002
	£000	£000
Surplus Before Tax	2,457	3,535
Depreciation (<i>note 11</i>)	3,719	3,625
Deferred Capital Grants Released to Income (<i>note 19</i>)	(2,843)	(2,854)
Investment Income (<i>note 5</i>)	(1,234)	(1,346)
Interest Payable	819	1,212
Decrease / (Increase) in Stocks	117	(34)
(Increase) / Decrease in Debtors	(1,041)	3,015
Increase in Creditors	356	3,145
Increase / (Decrease) in Provisions	986	(8)
	<hr/>	<hr/>
Net Cash Inflow From Operating Activities	3,336	10,290
	<hr/>	<hr/>

Note 26 Returns on Investments and Servicing of Finance

	2003	2002
	£000	£000
Income from Endowments (<i>note 20</i>)	175	164
Income from Short Term Investments	1,214	1,221
Interest Paid	(836)	(1,212)
	<hr/>	<hr/>
	553	173
	<hr/>	<hr/>

Note 27 Capital Expenditure and Financial Investment

	2003	2002
	£000	£000
Tangible Assets Acquired (Other than Leased Equipment)	(12,504)	(8,045)
Proceeds from Tangible Asset Disposal	24	9
Fixed Asset Investment Acquired	(1)	–
Endowment Asset Investments Acquired (<i>note 13</i>)	(1)	(182)
	<hr/>	<hr/>
Total Fixed and Endowment Asset Investments Acquired	(12,482)	(8,218)
Deferred Capital Grants Received	10,236	5,129
Endowments Received (<i>note 20</i>)	1	182
	<hr/>	<hr/>
	(2,245)	(2,907)
	<hr/>	<hr/>

Note 28 Analysis of Changes in Consolidated Financing During the Year

	Mortgages & Loans
	£000
Balances at 1 August 2001	11,481
Capital Repayments	(2,802)
Balances at 31 July 2002	8,679
Capital Repayments	(257)
Balances at 31 July 2003	8,422

Note 29 Analysis of Changes in Net Funds

	At 1 August	Cash Flows	Other Changes	At 31 July
	£000	£000	£000	£000
Cash at Bank and in Hand	1,201	242	–	1,443
Short Term Deposits	21,832	1,075	–	22,907
Debt due within one year	(257)	257	(279)	(279)
Debt due after one year	(8,422)	–	279	(8,143)
	<hr/>	<hr/>	<hr/>	<hr/>
	14,354	1,574	–	15,928
	<hr/>	<hr/>	<hr/>	<hr/>

Note 30 Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Leicester Pension and Assurance Scheme (PAS).

Universities Superannuation Scheme (USS)

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

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

Notes to the Accounts (continued)

Note 30 Pension Schemes (continued)

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

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

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

The total pension cost for the institution was £6,335,000 (2002: £5,901,000). This includes £544,000 (2002: £499,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

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

Leicester Pension and Assurance Scheme (PAS)

PAS is a defined benefit scheme and was closed to new entrants on the 31 July 2003. It was replaced by a new defined contribution pension scheme for all support staff appointed on or after 1 August 2003. An approximate actuarial assessment for the PAS was carried out at 31 July 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	2003	2002
Rate of increase in salaries	4.20%	4.10%
Rate of increase in pensions in payment	2.70%	2.60%
Discount rate	5.47%	6.00%
Inflation assumption	2.70%	2.60%

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

	Long term rate of return expected at 31 July 2003	Value at 31 July 2003 £000	Long term rate of return expected at 31 July 2002	Value at 31 July 2002 £000
Equities	7.75%	38,063	7.00%	34,296
Bonds	5.47%	8,693	6.00%	9,061
Cash	4.00%	2,153	4.00%	–
		<u>48,909</u>		<u>43,357</u>

The following amounts at 31 July 2003 were measured in accordance with the requirements of FRS 17:

	2003 £000	2002 £000
Total market value of assets	48,909	43,357
Present value of scheme liabilities	(73,455)	(59,978)
Deficit in the scheme – Net pension liability	<u>(24,546)</u>	<u>(16,621)</u>

Note 30 Pension Schemes (continued)

If the previously stated amounts had been recognised in the financial statements, the University's net assets and general reserve at 31 July 2003 would be as follows:

	2003 £000	2002 £000
Net assets excluding pension liability	72,270	62,869
Pension liability	(24,546)	(16,621)
Net assets including pension liability	47,724	46,248
General reserve excluding pension liability	26,635	24,178
Pension reserve	(24,546)	(16,621)
General reserve including pension liability	2,089	7,557

Additionally, if the pension costs had been recognised in accordance with FRS 17, the following components of the pensions charge would have been recognised in the Income and Expenditure Account and Statement of Recognised Gains and Losses for the year ended 31 July 2003:

	2002/03 £000	2001/02 £000
Analysis of amounts charged to Income and Expenditure Account:		
Current service cost	(2,201)	(2,167)
Past service cost	–	–
Financing:		
– expected return on pension scheme assets	2,969	3,556
– interest on expected scheme liabilities	(3,650)	(3,228)
Net return	(2,882)	(1,839)
Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:		
Actual return less expected return on pension scheme assets	318	(13,363)
Experience gains and losses arising on scheme liabilities	556	50
Restatement of assets at 31 July 2002	256	–
Changes in assumptions underlying the present value of scheme liabilities	(8,918)	(650)
Total actuarial loss recognised	(7,788)	(13,963)

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

	2003 £000	2002 £000
Deficit on scheme at 1 August	(16,621)	(2,600)
Movement in year:		
– current service cost	(2,201)	(2,167)
– contributions	2,745	1,781
– past service costs	–	–
– other finance (loss)/gain	(681)	328
– actuarial loss	(7,788)	(13,963)
Deficit on scheme at 31 July	(24,546)	(16,621)

Notes to the Accounts (continued)

Note 30 Pension Schemes (continued)

The full actuarial valuation at 31 July 2003 showed an increase in the deficit from £16,621 to £24,546. There have been no improvements in benefits and the contributions have been increased to 18.65% of pensionable pay during 2002/03. From 1 August 2003 contributions will be increased to 21.35% of pensionable pay. This rate of contribution will be reviewed on 1 August 2004.

The gains and losses for the year ended 31 July 2003 were as follows:

Difference between the expected and actual return on scheme assets:

Amount (£000)	318
Percentage of scheme assets	0.7%

Experience gains and losses on scheme liabilities:

Amount (£000)	556
Percentage of the present value of scheme liabilities	0.8%

Total amount recognised in the statement of total recognised gains and losses:

Amount (£000)	7,788
Percentage of the present value of scheme liabilities	10.6%

Note 31 Related Party Transactions

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

During the year, the University made a loan of £120,000 to Perpetuity Research and Consultancy International Limited, a company in which it has a 24.9% interest (see note 12). This amount was included in debtors at the year end.

Note 32 Post Balance Sheet Events

There are no post balance sheet events.

Note 33 Access Funds

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

	2002/03 £000	2001/02 £000
Income		
HEFCE Grants	522	564
Interest	2	2
	<hr/> 524	<hr/> 566
Expenditure		
Expenditure in Relation to Eligible Students	494	565
Audit Fees	1	1
	<hr/> 495	<hr/> 566
Expenditure Met by University	<hr/> –	<hr/> –
	<hr/> 495	<hr/> 566
Balance at 31 July 2003	<hr/> 29	<hr/> –

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

Note 34 Teacher Training Agency Funds

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

	ITT Training Bursaries £000	Secondary Shortage Subjects £000
Cash received	2,082	13
Bursaries paid	1,943	12
Administrative costs	41	1
VAT on administrative costs	7	–
	<hr/> 1,991	<hr/> 13
Repayable to TTA	<hr/> 91	<hr/> –

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

Five Year Summary Accounts

Income and Expenditure Account

	1998/99	1999/00	2000/01	2001/02	2002/03
	£000	£000	£000	£000	£000
Income					
Funding Council Grants	38,256	39,525	40,366	43,482	44,424
Academic Fees and Support Grants	24,815	25,644	27,584	31,816	36,616
Research Grants and Contracts	27,273	30,836	33,123	36,044	36,970
Other Operating Income	24,335	25,575	30,177	33,154	35,812
Endowment Income and Interest	1,968	1,362	1,384	1,346	1,234
Surplus on Sale of Assets	–	137	–	–	–
Total Income	116,647	123,079	132,634	145,842	155,056
Expenditure					
Staff Costs	69,855	73,919	79,871	84,422	90,917
Depreciation	1,843	2,387	2,980	3,625	3,719
Other Operating Expenses	47,515	47,197	48,626	53,048	57,144
Interest Payable	1,271	1,264	1,255	1,212	819
Total Expenditure	120,484	124,767	132,732	142,307	152,599
Surplus/(Deficit) for the year	(3,837)	(1,688)	(98)	3,535	2,457

Balance Sheet

Fixed Assets	52,071	53,530	55,489	59,900	69,586
Endowment Asset Investments	3,763	4,218	4,010	3,606	3,653
Net Current Assets	11,747	9,015	9,679	8,248	8,623
Creditors: Amounts Due After One Year	(11,513)	(11,388)	(11,244)	(8,422)	(8,143)
Provisions for Liabilities and Charges	–	–	(471)	(463)	(1,449)
Total Net Assets	56,068	55,375	57,463	62,869	72,270
Represented By					
Deferred Capital Grants	29,876	30,416	32,810	35,085	41,982
Endowments	3,763	4,218	4,010	3,606	3,653
General Reserves	22,429	20,741	20,643	24,178	26,635
Total Funds	56,068	55,375	57,463	62,869	72,270

Financial Statistics

Sources of Income

% of Total Income

	1998/99	1999/00	2000/01	2001/02	2002/03
Grants from Funding Councils (HEFCE and TTA)	32.8%	32.1%	30.4%	29.8%	28.7%
Academic Fees and Support Grants	21.3%	20.9%	20.8%	21.8%	23.6%
Research Grants and Contracts	23.4%	25.1%	25.0%	24.7%	23.8%
Residences, Catering and Conferences	8.7%	8.7%	8.5%	8.6%	8.5%
Other Income	13.8%	13.2%	15.3%	15.1%	15.4%
Total Income	100.0%	100.0%	100.0%	100.0%	100.0%

Analysis of Expenditure

% of Total Expenditure

Staff Costs	58.0%	59.3%	60.3%	59.3%	59.6%
Depreciation	1.5%	1.9%	2.2%	2.5%	2.4%
Other Operating Expenses	39.4%	37.8%	36.6%	37.3%	37.5%
Interest Payable	1.1%	1.0%	0.9%	0.9%	0.5%
Total Expenditure	100.0%	100.0%	100.0%	100.0%	100.0%
Surplus/(Deficit) for the Year as a % of Total Income	(3.3%)	(1.4%)	(0.1%)	2.4%	1.6%

Indicators of Financial Strength

Days Ratio of Total General Funds to Total Expenditure <i>To indicate the number of days total expenditure which could be met from general funds</i>	71	64	59	64	66
Days Ratio of Net Current Assets to Total Expenditure <i>Number of days an institution could meet expenditure from net assets</i>	36	26	27	21	21
% Ratio of Long-Term Liabilities to Total General Funds <i>Measures the extent to which an institution is funded by long-term debt</i>	49	52	52	34	30

Indicators of Liquidity and Solvency

% Ratio of Liquid Assets to Current Liabilities <i>Extent to which current liabilities could be met from cash and liquid investments</i>	96	75	73	82	82
Ratio of Current Assets to Current Liabilities <i>Extent to which current liabilities could be met from current assets</i>	1.5	1.4	1.4	1.3	1.3
Debtor Days <i>Days of total income (excluding Funding Council income) represented by debtors</i>	54	59	60	44	42