

Financial Statements 2007/08



The Times Higher
University
of the Year
2007/08

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The Financial Statements are also on the web at www.exeter.ac.uk/about/accounts

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PERFORMANCE OVERVIEW

The University of Exeter is driven by its use of data, evidence and strategic analysis to determine its future course of action. The University's Council and management share a common view as a result of the empirically focused approach which enables a coherent and rational response to the aspirations of the Council of the University and the challenges the managers of the University need to address to achieve these aspirations.

For the purposes of assessing and driving operational performance the University used the following fifteen key operational performance indicators in the year:

- National student survey
- Sport and wellness
- Undergraduate degree classification
- Undergraduate completion
- Information technology, library and learning expenditure
- Postgraduate population
- Undergraduate entry standards
- Graduate level employment
- Research income per staff full time equivalent
- Postgraduate research students per staff full time equivalent
- Student facilities expenditure
- Research outputs
- Earned income
- International population
- Capital and maintenance expenditure

The University's performance in these indicators was assessed relative to a "comparator" group of universities, who were either already in or challenging for Top 20. The analysis confirmed that across these key operational performance indicators the University was now at Top 20 levels of performance. External rankings published in 2008 also corroborated this view, with a ranking of 13th in the Times Good University Guide and 14th in both the Sunday Times and the Guardian, for example, and with the student experience as measured by the National Student Survey now inside the Top 5 in the UK (for full-service universities).

Given the achievement of the top 20 aspiration the University's Council has now endorsed a heightened strategic ambition for the University.

The heightened ambition is to create a destination university which in UK and International terms will be:

- Top 10 in the United Kingdom by 2012
- Top 100 in the World by 2015

A concentrated set of ten key operational performance indicators has been agreed and is now monitored and reported against, and with a new peer group of universities now selected to set the benchmark to Top 10.

FINANCIAL OVERVIEW

At a time when the world economic climate is facing a downturn, it is pleasing to report on a year of solid financial performance, underpinned by significant growth in research activity. The performance is a reflection of previous targeted investment ahead of the Research Assessment Exercise, the outcome of which in respect of future research funding will soon be known.

The University's group income has grown by 17% to £178.7 million in the year. Some 21.4% of this growth arises from an increase in earned income. This is in line with the University's strategy to reduce reliance on Funding Council grants, earned income now constitutes some 64.4% of total income. Significant increases in income were achieved through:

- Tuition fees and educational contracts, which rose 29.4% to £45.5 million arising from increased international student numbers and the second year of variable student tuition fees.
- Research activity, which rose by 21.9% to £24.5 million, in particular significant successes in the Schools of Biosciences and Humanities and Social Sciences.
- Other income increased by £7.2 million from a wide variety of sources including the Peninsula College of Medicine and Dentistry (£1.0 million) and the Cornwall phase 2 working capital grant (£1.1 million). The increase in other income also includes the growth in turnover of the University's joint ventures (£3.2 million): Tremough Campus Services and INTO University of Exeter LLP, this increase is eliminated on consolidation.

BUSINESS REVIEW

There are a number of significant financial challenges ahead, with pressure on pay and utility costs and general uncertainty in respect of future funding and fee levels. The University is facing these with a confidence based on sound financial management and planning, combined with clear strategic goals in respect of research growth in the new Research Evaluation Framework era and a focus on internationalisation and improving the student experience.

The University is well placed to pursue its strategic direction of becoming a Top 10 University, supported by the Science, Finance and Infrastructure Strategies implemented over the last year.

FINANCIAL PERFORMANCE REVIEW

The financial statements of the University comprise the University itself and its subsidiaries, Trusts where it has control and its share of the results of joint ventures and associated companies. Information on the entities included in the Consolidation is included in Notes 13 and 14 to the Accounts.

The University's consolidated accounts are impacted this year by the adoption of the new Higher and Further Education Statement of Recommended Practice (SoRP) which took effect from 1 August 2007. In addition, the University has consolidated a previously unconsolidated trust, The Exeter University Foundation (Foundation). The adoption of the SoRP and the consolidation of the Foundation results in a prior year adjustment. This adjustment has led to an increase in the previously reported result for 2006/07 of £0.4 million so reducing the overall reported deficit for 2006/07 to £0.3 million. The balance sheet for 2006/07 includes the assets of the Foundation, increasing the University's net assets by £6.0 million.

The University's consolidated financial deficit for the year is £3.0 million (2006/07 £0.3 million). This operating result is a surplus of £2.4 million (2006/07 £3.5 million deficit) after charging depreciation on the revalued carrying value of property.

The operating performance of the University has improved as a result of good financial control in schools and services throughout the year. In 2006/07 the University incurred a deliberate operating deficit as additional resources were allocated to fund new research active academics in

preparation for the Research Assessment Exercise. The Research Assessment Exercise will be reporting across all universities on research excellence in 2008/09. As planned the University's operating result has returned to a surplus position during 2007/08. This investment in research active academics is partially responsible for the pleasing growth in research income and earnings in the year.

The largest single reason for the improvement in the operating result is due to growth in home and international student tuition fees. Higher levels of tuition fees were budgeted as the second year of variable student tuition fees for home and European Union students. Further growth in tuition fees was expected and materialised with respect of international students as part of the University's international strategy. This involved investment in the University's in house marketing and the joint venture with INTO University Partnerships Limited.

Other improvements in the operating result arose as a consequence of the good financial performance of the Peninsula College of Medicine and Dentistry. Pension's adjustments in relation to the Exeter Retirement Benefits pension scheme also made a significant positive contribution to the operating result.

Overall the operating result is especially pleasing given the University's targeted investment in the 2008 Research Assessment Exercise during 2006/07. This policy has been successful in significantly increasing the research volume of the University in advance of the 1 December 2007 census date.

Against this operating result the University has charged three exceptional items:

- A surplus on the disposal of off campus properties £1.6 million. The University is currently divesting of off campus properties which are difficult to operate and maintain. The resources generated by these disposals are being reinvested in the Infrastructure Strategy.
- Impairment costs of £2.8 million for student residences (Lafrowda) which are due to be replaced in the near future. This is a key element of the University's Infrastructure Strategy to improve the student experience by increasing and improving the quantity and quality of on-campus student accommodation. Following a competitive

bidding process, the University has selected University Partnerships Programme (UPP) to take over the running of Lafrowda, Rowe and St Germans residences on long leases. UPP will seek planning permission to redevelop some of the existing buildings and, in addition, to build further new student rooms on the University's Streatham Campus. This is a strategically important move because it will allow the University to concentrate its resources on academic and associated developments. Accordingly, the University has concluded that a charge be made in the year of £2.8 million against the Lafrowda student residences which are considered not to be consistent with a top 10 university. A further write down of £14.3 million is made against the revaluation reserve in respect of these residences as a consequence of previous upward revaluations which are now being removed.

- The £4.4 million breakage cost associated with the renegotiation of the University's banks loans and swaps and replacing them with a new unsecured £165 million bank facility. This transaction is a key component of the University's Financial Strategy; the University refinanced its borrowings in the year and negotiated a further £81 million debt facility. It will give the University greater financial flexibility and enable it to invest in a number of strategically important infrastructure projects. The one-off charge of £4.4 million arose as a result of this transaction, the University secured a lower interest rate (5.49%) thereby reducing loan repayment costs in the longer term.

In monitoring the performance of the University the Council of the University and the Higher Education Funding Council for England (HEFCE) use the historical cost basis. This basis is used by the HEFCE to assess universities financial performance. For the year to 31 July 2008 the consolidated historical cost result for the University reported in these financial statements is:

	2008 £m	2007 £m	2006 £m
Income	178.7	152.8	137.6
Expenditure	(170.9)	(151.2)	(134.0)
Share of operating loss in joint venture	(0.9)	(0.8)	(0.3)
	<u>6.9</u>	<u>0.8</u>	<u>3.3</u>
Exceptional items	(5.1)	5.3	0.4
Transfer from endowment funds	0.2	-	-
Historical cost surplus/(deficit) for the year	<u>2.0</u>	<u>6.1</u>	<u>3.7</u>

The historical result is £5.0 million higher than that reported in the Income and Expenditure account. The two adjustments giving rise to this improvement are:

- A £4.5 million reduction in the depreciation charge arising on the revalued element of fixed assets.
- Lower costs of £0.5 million associated with assets sold in the year which had previously been revalued.

As planned in 2006/07 the University's operating surplus has improved to create a healthy financial position. This is a strong position for the University to progress into what is expected to be a difficult national and international economic environment. It is anticipated that this will put pressure on

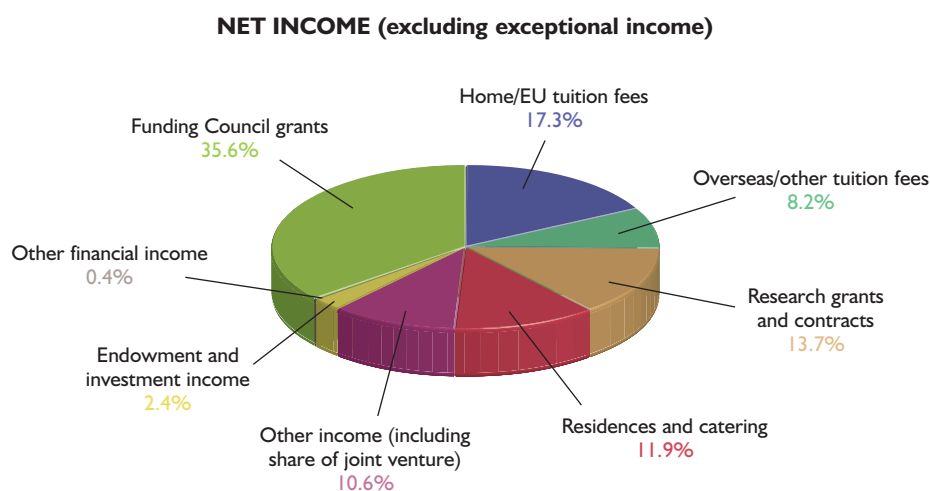
the Government and the HEFCE capacity to invest in the higher education sector to the extent that it has done so in recent years.

In addition the University is affected by higher utility price pressures which are impacting on all households and businesses at present. The higher education sector is particularly impacted by the increase in pay costs both in 2007/08 and in 2008/09 with the latest and final agreed pay increase after the financial year in October 2008. The University will manage its finances so as to ensure that it remains able to invest and adapt to changing circumstances.

BUSINESS REVIEW

INCOME

The University's group income has grown by 17% to £178.7 million in the year. Of this growth 9.7% is due to increases in grant income from the Funding Council and 21.4% arises from growth in earned income. This is in line with the University's strategy to reduce reliance on Funding Council grants; in 2007/06 these grants constituted some 37.9% of income, in 2007/08 this fell to 35.6%.



The most significant area of income growth is tuition fees and educational contracts. These have grown by £10.3 million (an increase of 29.4% on 2006/07) as a result of the income flowing from the second year of variable tuition fees (an additional £5.5 million), the recruitment of students in Cornwall for phase 2 of the growth in the University's Cornwall campus (£0.9 million), home, European Union postgraduate income growth (£0.8 million) and increased revenues from international students (£1.9 million).

Two years of home and European Union undergraduate students are being charged the variable student tuition fee; in 2008/09 the majority of undergraduate students will be charged this fee and after this further material growth in these revenues will be dependent upon Government intentions. The implementation of the International Strategy has proved successful and is on target. The University's partnership with INTO University of Exeter LLP is also progressing to plan and will recruit additional international students in the future. Further growth in international student revenues is expected in the coming years. The University is specifically targeting growth in non-regulated teaching activity in addition to that funded by HEFCE.

The University is delighted with the significant growth in its research activity related income this year. Earned research

income is £4.4 million (21.9%) higher than 2006/07. This growth is a reflection of the difficult decisions made by the University in 2004/05 to reorganise and reprioritise its academic endeavours. Research income now makes up some 13.7% of total income, a significant increase on the ratio in both 2003/04 and 2004/05 of 11.9%. This is especially significant given that variable tuition fees have been introduced in this period so significantly increasing total revenues and acting to depress the impact of the growth in research incomes. The absolute growth in research income is even more impressive; in the four years between 2004/05 and 2007/08 research income has grown from £15.3 million to £24.5 million.

The University will continue to target the growth in research income in the future. Specific strategies, such as the £9 million investment in the Science Strategy, are targeted to enhance this growth by developing and strengthening areas of research. The University is developing a new research strategy to ensure the Institution maximises its opportunities under the new Research Evaluation Framework.

The year has also seen a growth in Funding Council revenues as the University's student numbers have increased, especially with phase 2 in Cornwall and the development of dentistry in the Peninsula College of Medicine and Dentistry (PCMD).

The Funding Council research grant has also increased with additional funding to protect strategically important and vulnerable science subjects.

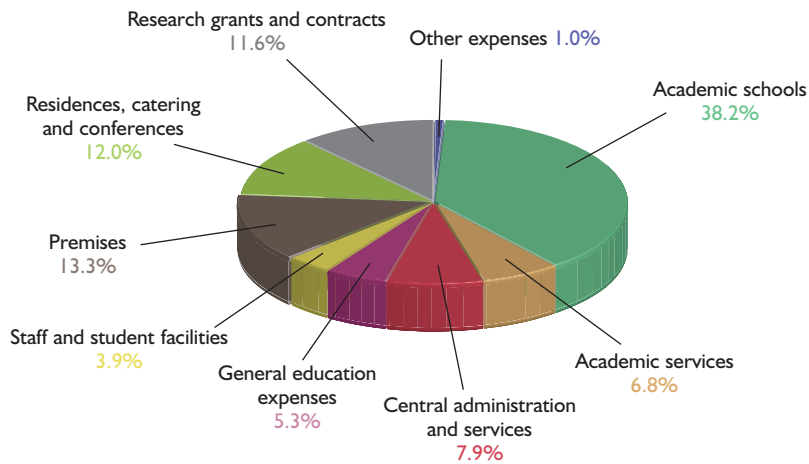
Other income in the year increased by £7.2 million. This increase is primarily due to additional NHS SIFT income in

PCMD (£1 million), an increase in income relating to the joint ventures with INTO (£2.3 million) and Tremough Campus Services (£0.9 million), increased income from donations (£0.7 million) and the final tranche of Cornwall phase 2 working capital grant (£1.1 million).

EXPENDITURE

The University's group expenditure has grown by 12.8% to £175.5 million in the year. Of this increase the majority has been on additional staff and other expenditure in schools, either for research or teaching activities.

EXPENDITURE (excluding exceptional expenditure)



Staff costs now total £100.5 million, an increase of 11.5% (some £10.4 million) over 2006/07. Of this increase 3.9% is due to the three year national pay award with the balance being largely due to new staff cost. In the year the University appointed an additional 141 staff, with 72 of these being academic. Given the University strategy of enhancing research activity the number of teaching fellows and occasional academic staff reduced by 21 whilst research active, academic staff increased by 87. The number of support staff in schools and services increased by 75 over the year.

The most significant increase in expenditure relates to other expenditure which increased by £8 million (15.9%) to £58.5 million. Due to the growth of research activity and student numbers some £5.9 million of this increase is specific school expenditure. Scholarship and fellowship expenditure rose by £3.1 million (68.2%) to £7.7 million per year. Expenditure

on laboratory equipment is 30.6% higher than 2006/07 at £3.5 million. Non contract staff and external examiners fees are up by £1.3 million to £5.6 million in the year. These increases are part of the drive by the University to enhance the student experience and to facilitate higher levels of research activity.

The largest non school specific increase is energy costs, these constitute some £1.4 million of this £8 million increase; this is a rise of 69.4% on 2006/07. The University has anticipated future increases in energy and utility costs in its future plans. Energy costs also partly explain the £0.5 million increase in costs of the Combined Services at the University's Falmouth Campus.

Overall depreciation charges are £1.5 million higher at £11.6 million as a consequence of the University's capital programme.

BUSINESS REVIEW

CASH FLOW

The University's operating cash inflow was £13.0 million, a substantial increase of £8.2 million over 2006/07. This was primarily the result of the improved operating position and a greater increase in creditors compared with 2006/07. The overall cash inflow for the year was £2.2 million. This movement of £10.8 million from the operating cash inflow was the result of additional cash placed in short term deposits (£13.0 million) and interest paid (£5.8 million) offset by returns on investments (£3.2 million) and the net cash inflow from loan financing (£4.2 million).

The University operated within its bank covenants with Barclays Bank plc, National Westminster Bank plc, Royal Bank of Scotland plc and Lloyds TSB plc. The University plans demonstrate continued compliance with its covenants in future years. Bank covenant compliance is regularly monitored in a rapidly changing financial environment.

BALANCE SHEET

The University's net assets have fallen from £414.1 million to £396.8 million in the year. The principal cause of this reduction is the impairment of the University's Lafrowda residences, which resulted in a £17.1 million reduction in the University's net assets.

During the year the University has constructed £23.3 million of assets and sold fixed assets with a cost of £1.2 million. Large asset additions include: the completion of phase 2 of the Innovation Centre (£2.5 million); Exeter's share of the land costs for phase 3 at the Cornwall campus (£1.8 million); the on-going refurbishment of the Geoffrey Pope building (£1.8 million), the completion of the refurbishments of Amory (£1.4 million) and the Queen's building (£1.3 million).

The University holds £11.7 million of investment assets and £16 million of endowments. These are predominantly held in the form of equities. During the year the value of these investments and endowments has fallen by £3.5 million. The turbulence and general downward trend of equity values has continued after the year end and may well lead to further lower values for endowments and investment assets at 31 July 2009.

At the year end the University held £23.2 million in cash and £21.0 million in investments, mainly term deposits with

banks and other financial institutions. These total deposits of £44.2 million (2006/07 £29.2 million) are part of the University's build up of cash balances to meet the demands of the first phase of the University's infrastructure investment strategy.

The holding of such large cash balances at a time when the world's financial system is under severe systemic pressure caused the University to review its policies. The fundamentals of the policy is to utilise credit ratings to confirm that financial institutions where cash deposits may be placed are considered secure and to limit cash deposits in any financial institution to a level such that any single failure would not jeopardise the financial viability of the University.

In compliance with the policy the University invested £2.0 million in the Financial Services Authority registered British branch of the Icelandic financial institution Landsbanki Islands hf. In addition the University invested a further £1.0 million on behalf of its joint venture with the University of Plymouth, PCMD. The University consolidates 50% of the PCMD joint venture. The position as to the recoverability of these deposits is unclear. As required by Accounting Standards the cash deposits have been recorded at full value in the financial statements as at 31 July 2008. A loss may be recorded in the financial year 2008/09.

The University's net debt fell by £11.0 million in the year to £39.2 million. The major contributor to this improvement is an additional £7.6 million of operating cash inflows. Another large improvement was the £8.7 million withdrawal from the restricted cash balances in the year. This reduction in net debt is planned to assist the University with its plan to implement the Infrastructure Strategy.

The University refinanced its existing bank borrowings in the year as part of the negotiation of a £165.0 million facility completed with the National Westminster Bank plc and Barclays Bank plc. Of this facility £84.0 million was used to refinance existing borrowings. This refinancing incurred a breakage cost of £4.4 million which is included as an exceptional item in the Income and Expenditure account. The remaining £81 million undrawn element of the facility is available to the University over the period to July 2013 to be utilised to fund the investments identified in the Infrastructure Strategy.

The refinancing of the existing debt will lead to a reduction in the interest rates payable by the University on these borrowings. Previously the relevant interest rates were mainly between 5.82% and 7.66%. The refinanced borrowings are at interest rates in the range of 5.41% to 5.54% with a five year capital repayment holiday. The overall weighted average interest rate payable on the unrefinanced borrowings was 6.44%; this compares with the interest rate

on the refinanced borrowings, on the same basis, of 5.49%.

The net current assets of the University are broadly unchanged from 2006/07 at £20.8 million. The net liquidity days of the University are 96, well in excess of the minimum levels set by the University as stated below.

KEY FINANCIAL PERFORMANCE INDICATORS

In terms of assessing its financial solvency performance the University uses a set of key performance indicators. The six key financial solvency indicators are noted below:

Key financial performance indicator	Actual as at 31 July 2008	Early warning trigger	Maximum / minimum level
Pay as a percentage of total income	56%	60%	62%
Cash and near cash headroom	£43.2 million	£15.0 million	£15.0 million
Current ratio	1.5	1.2	1.0
Net liquidity days	96	50	40
Loans as a percentage of total income	55.6%	65%	65%
Compliance with bank covenants	Full compliance	Full compliance	Full compliance

The Council and managers of the University assess the impact of its plans and developments against these indicators to ensure the University retains its solvency and its capacity to adapt to changing circumstances.

Finally, as this is my first report on the financial statements of the University under the University's new dual assurance governance framework, I would like to take this opportunity to thank the outgoing Treasurer, Gerald Sturtridge, for the extremely valued contribution he has made to the work of the University, not least for the support and advice he has given me since joining the University. Gerald has been a valued servant of the University for many years benefiting the University with his sound financial acumen and insights in to the threats and opportunities on the horizon.

JEREMY LINDLEY
DIRECTOR OF FINANCE AND CORPORATE SERVICES

25 November 2008

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

INTRODUCTION

The following statement is provided to enable readers of the Financial Statements of the University to obtain a better understanding of the governance and legal structure of the University.

PRINCIPLES OF OPERATION

The University conducts 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) and with the guidance to universities which has been provided by the Committee of University Chairmen in its Guide for Members of Higher Education Governing Bodies in the UK.

LEGAL STATUS OF THE UNIVERSITY

The University is an independent corporation, whose legal status derives from a Royal Charter granted in 1955. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes, and approved by the Privy Council.

MANAGEMENT

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** - is the supreme governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. The approval by Council of any changes to the Charter and Statutes is required before they can be submitted to the Privy Council.

It has a majority of members from outside the University (described as lay members), from whom its Chair must be drawn. Also included in its members are representatives of the staff of the University and the student body. None of the lay members receives payment, apart from the reimbursement of expenses, for the work that the member does for the University.

- **The Senate** - is the academic authority of the University and draws its membership from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.
- **The Court** - is a large, mainly formal body which offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court normally meets once a year to receive the Annual Report and Accounts of the University and has the right to advise Senate and Council.

A majority of the members of the Court will be from outside the University, representing the local community and other designated bodies with an interest in the work of the University. The membership also includes representatives of the staff of the University (both academic and non-academic), the student body, former students and benefactors.

During the summer of 2007 the University undertook a consultation exercise to look at the potential dissolution of Court. This was agreed by Court in March 2008 and approved by Council in April 2008. The amendment to the Charter of Incorporation and Statutes was subsequently agreed by Senate in June 2008 and then by Council in July 2008. Final Privy Council approval was received in October 2008.

In addition to the above three bodies, Council has an Audit Committee which the University is required to maintain in accordance with its Financial Memorandum with the Higher Education Funding Council for England (HEFCE) in order to ensure that it is fulfilling its responsibilities for proper financial management, effective internal control, risk management and value for money.

- **The Audit Committee** - is a Committee of Council which considers detailed reports from the University's Auditors that include recommendations for the improvement of the institution's systems of risk management and internal control, together with management responses and implementation plans. The Committee also receives and considers reports from the HEFCE as they affect the University's business and monitors adherence to regulatory requirements.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

The Audit Committee meets four times a year with the University's senior officers and the External and Internal Auditors in attendance. At least once a year the Committee meets the Auditors without the University officers present. The Committee comprises members with no executive responsibility for the management of the University.

REMUNERATION COMMITTEE

Remuneration Committee is responsible for setting the salaries of all senior staff, including members of the Vice-Chancellor's Executive Group, Heads of Schools, Professors and Professorially-related staff. With effect from 2006/07, members of the Vice-Chancellor's Executive Group agreed to forgo the nationally-negotiated general increase in favour of a performance-related review. Under this arrangement, the Vice-Chancellor's Executive Group members are eligible for a team bonus in addition to having their salary individually reviewed. Reflecting the exceptional achievements of 2007/08 the team bonus was paid in full. Remuneration Committee favours a close link between performance and reward and intends to review these arrangements over time and to consider whether they could be applied to other members of senior management.

VICE-CHANCELLOR

The principal academic and administrative officer of the University is the Vice-Chancellor who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

As Chief Executive of the University, the Vice-Chancellor exercises considerable influence on the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Deputy Vice-Chancellors and the senior administrative officers all contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Vice-Chancellor.

UNIVERSITY COMMITTEES

Although the Council meets at least four times each academic year, much of its detailed work is handled initially by four Council committees, whose decisions are formally reported to Council. These committees are the Strategy, Performance and Resources Committee (a joint committee of Senate and Council), the Audit Committee, Remuneration Committee and Nominations Committee. They are formally constituted as committees of Council with written terms of reference and specified membership, which includes lay members. A lay member chairs the Audit, Remuneration and Nominations Committees, and the Vice-Chancellor chairs Strategy, Performance and Resources Committee.

Concerning its strategic and developmental responsibilities, Council receives recommendations and advice from the Strategy, Performance and Resources Committee, including a recommendation on the annual revenue budget, and monitoring reports on performance against the approved budget.

During the financial year, the University replaced many of the committees which had formerly reported into Strategy, Performance and Resources Committee on particular areas of the University's business. These areas are now governed through a mechanism known as dual assurance. This model involves two people - the first of these is a member of the Vice-Chancellor's Executive Group, who takes responsibility for the management and development of policy in a particular area of business. The second member of the dual assurance partnership is a lay member of Council, knowledgeable in the same area, who provides assurance to Council that this activity is well-managed and that decisions have been reached following due process and appropriate consultation.

The University has retained formal standing committees in the areas of Health & Safety, Ethics, and Honorary Degrees, and also the Senate, its academic decision-making body.

STATEMENT OF INTERNAL CONTROL

As the governing body of the University of Exeter, Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to Council in the Charter and Statutes and the Financial Memorandum with HEFCE.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. This process has been in place for the year ended 31 July 2008 and up to the date of approval of the financial statements.

Council has responsibility for reviewing the effectiveness of the system of internal control. It meets at regular intervals (at least four times a year) to consider the plans and strategic direction of the institution and receives periodic reports from the Chairman of Audit Committee concerning internal control and the minutes of Audit Committee. The Audit Committee receives regular reports from the internal audit, which includes an independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.

The University has established the Performance and Risk Steering Group to manage the development of risk management at Exeter and the Audit Committee oversees the work undertaken through the consideration of regular reports and an annual meeting with representatives of the Group. A regular programme of facilitated workshops is held to identify and keep up to date the record of risks facing the organisation (the programme was initially targeted at the University's Senior Management Group but has now been made available to others across the University). The Performance and Risk Steering Group also regularly reports to Council, via managers, on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.

The University continues to undertake a programme of risk awareness training and a robust risk prioritisation methodology based on risk ranking has been developed, together with the on-going maintenance of an organisation-wide risk register.

A system of key performance and risk indicators has been developed and these are continually updated. This, together

with reports received from budget holders, department heads and project managers on internal control activities, ensures compliance is maintained.

The review of the effectiveness of the system of internal control is informed by the internal audit team contracted to Exeter, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Services in September 2005. The internal auditors submit regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the University's system of internal control, with recommendations for improvement.

The review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

DISABLED EMPLOYEES

The University gives full consideration to applications for employment from disabled persons where the candidate's particular aptitudes and abilities are consistent with adequately meeting the requirements of the job. Opportunities are available to disabled employees for training, career development and promotion.

Where existing employees become disabled, it is the University's policy to provide continuing employment wherever practicable in the same or an alternative position and to provide appropriate training to achieve this aim.

REGISTER OF INTERESTS

The University maintains a Register of Interests of members of the Council and senior officers, which may be consulted by arrangement with the Registrar and Secretary.

FURTHER INFORMATION

The Statutes of the University specify that the Registrar and Secretary should act as Secretary of the Council to whom any enquiries about the constitution and governance of the University should be addressed.



MEMBERSHIP OF COUNCIL

1. Dr J Barry: Dean of the Faculty of Taught Programmes
2. Ms M Shoebridge: Director of Academic Services (in attendance)
3. Professor R J P Kain: Senior Deputy Vice-Chancellor (Research and Knowledge Transfer)
4. The Right Revd the Lord Bishop of Exeter
5. Mr J Cox*: President of the Students' Guild
6. Mr B M M Biscoe: Cornwall County Council
7. Professor N Armstrong: Deputy Vice-Chancellor (External Affairs)
8. Professor M Overton: Deputy Vice-Chancellor (Resources)
9. Mr D Allen: Registrar and Secretary (in attendance)
10. Mr S Goddard: School of Geography, Archaeology and Earth Resources (member of non-Academic staff)
11. Ms B Rigg: Partner, Bond Pearce LLP
12. Dame S Leather DBE: Chair of the Charity Commission
13. Mr M Jordan: Management Consultant
14. Ms S Wilcox: BT Regional Director for the South West
15. Professor J M Kay: Deputy Vice-Chancellor (Education)
16. Mr P Lacey: Pro-Chancellor
17. Mr R M P Hughes: Chair of Audit Committee (External Affairs) and Pro-Chancellor (Finance)
18. Lady Studholme: Privy Council representative on the University Court
19. Mr K R Seal: Chair and Pro-Chancellor
20. Professor S M Smith: Vice-Chancellor

MEMBERS OF COUNCIL 2008-09

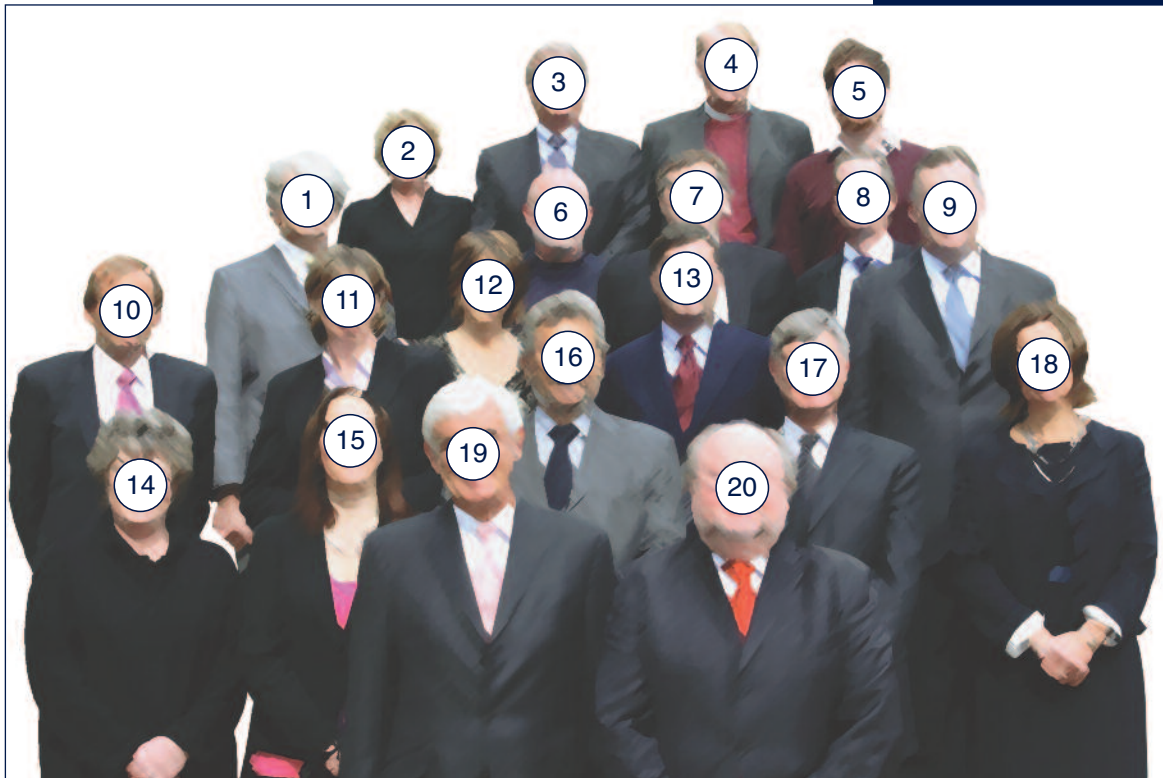
NOT PICTURED:

- Mr C J Allwood: Chief Operating Officer, Mecom plc
Professor C Brace: Academic Staff Association (appointed by Senate)
Sir Robin Nicholson FRS FREng: Former Professor of Metallurgy, Chief Scientific Advisor to the Cabinet Office
Mr H W J Stubbs: Solicitor (retired)
Professor T Naylor*: Head of the School of Physics

** Appointed as Member of Council 1 August 2008*

MEMBERS OF COUNCIL WHOSE APPOINTMENT ENDED 31 JULY 2008:

- Mr G A Sturtridge: Treasurer (retired)
Mr W Emmanuel-Jones: The Black Farmer®
Professor R Van de Noort: Dean of the Faculty of Graduate Research
Ms J Dow: Former President of the Students' Guild



RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

In accordance with the Royal Charter of Incorporation and Statutes of the University of Exeter, and subject to the advice of the University Court, the Council of the University is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

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

In causing the financial statements to be prepared, the Council has ensured through its senior officers and the Strategy, Performance and Resources and Audit Committees that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting and financial reporting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation; and
- the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps through its senior officers and Audit Committee to:

- ensure that funds from the Higher Education Funding Council for England and the Training and Development Agency for Schools are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and the funding agreement with the Agency and any other conditions which the Funding Council and the Agency may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and of the Group and to prevent and detect fraud and other irregularities;
- secure the economical, efficient and effective management of the University's resources and expenditure; and
- ensure that the key principles of effective risk management have been applied in line with the requirements of HEFCE's Accounts Direction.

INTERNAL FINANCIAL CONTROL

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools and administrative departments;
- experienced and suitably qualified staff who take responsibility for the finance and control functions within the University and its subsidiary companies;
- a comprehensive medium and short term planning process supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to detailed appraisal;

RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

- Financial Regulations supplemented by a comprehensive Financial Handbook, detailing financial controls and procedures, which is updated on an annual basis;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a 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, corporate governance and management of risk; and
- a formalised treasury and investment management policy.

Council's review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee (which oversees the work of the internal audit service), the individual members of staff within the University who have responsibility for the development and maintenance of the financial control framework and comments made by the External Auditors in the management letter and in other reports. The University currently contracts out the internal audit function to Mazars LLP.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Corporate Governance Statement and Responsibilities of the Council of the University on pages 8 to 15 were approved by Council on 25 November 2008 and signed on its behalf by:

K. R. Seal Chair of Council

D. J. Allen Registrar and Secretary

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the University's financial statements for the year ended 31 July 2008 which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, Note of Historical Cost Results, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement and related notes 1 to 39. The financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Council of the University of Exeter, as a body, in accordance with United Kingdom law and with the University's Charter of Incorporation. Our audit work has been undertaken so that we might state to the Council of the University of Exeter 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 of the University of Exeter as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described in the statement Responsibilities of the Council of the University, the University's Council is responsible for ensuring that financial statements are prepared in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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, are properly prepared in accordance with United Kingdom law and with the University's Charter of Incorporation and whether the information given in the Treasurers Report and the statement of Responsibilities of the Council of the University is consistent with the financial statements.

We also report to you if, in our opinion, the University has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding members' remuneration and other transactions is not disclosed.

We read other information contained in the Business Review, and consider whether it is consistent with the audited financial statements. 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 other information.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with International Standards on Auditing (United Kingdom and Ireland) issued by the Auditing Practices Board. 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.

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

OPINION

In our opinion:

- i) the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2008, and of the University's and group income and expenditure, and group cash flows for the year then ended, and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, the 'Statement of Recommended Practice on Accounting in Further and Higher Education Institutions', and with the University's Charter of Incorporation;
- ii) income from the Higher Education Funding Council for England and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- iii) income has been applied in accordance with the University's Statutes, and where appropriate, with the Financial Memorandum dated 1 August 2006 of the Higher Education Funding Council for England.
- iv) the information given in the Business Review is consistent with the financial statements.

KPMG LLP
Registered Auditor
2 Cornwall Street
Birmingham
B3 2DL

25 November 2008

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. GENERAL

In accordance with FRS 18 'Accounting policies' these accounting policies have been reviewed by the University's Council and are considered appropriate to the University's activities.

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments, and in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable accounting standards. They conform to guidance published by the Higher Education Funding Council for England. The financial statements have been prepared on a going concern basis.

2. BASIS OF CONSOLIDATION

The results of the University's subsidiary undertakings and undertakings that it has a controlling interest in have been consolidated in the financial statements and details of these are provided in note 13.

The University's share of the results in its joint ventures has been consolidated in the financial statements and details of these are provided in note 14.

The activities of the University of Exeter Student's Guild have not been consolidated on the grounds that the University does not operate dominant influence over its activities. Details of these are provided in note 33.

3. RECOGNITION OF INCOME

The recurrent grants from the funding bodies represent the funding allocations, which are attributable to the current financial year and are credited direct to the income and expenditure account.

Tuition fees represent all fees chargeable to students or their sponsors received and receivable attributable to the current accounting period net of discounts. The costs of any fees waived by the University are included as expenditure and reported in note 8.

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year

and any related contribution towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs. Any excess of income over expenditure in any one year is carried forward. The University holds no general endowment asset investments.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

The University acts as an agent in the collection and payment of hardship funds and training bursaries from the funding bodies. Related receipts from the HEFCE and Training and Development Agency for Schools (TDA) and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in notes 35 to 38.

4. FOREIGN CURRENCIES

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. Resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

5. PENSION SCHEMES AND OTHER POST-RETIREMENT BENEFITS

Retirement benefits for employees of the University are provided by defined benefit schemes, which are funded by contributions from the university and employees.

The two principal pension schemes for University staff are the Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension.

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Both funds are valued every three years by professionally qualified independent actuaries. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes.

The assets of the USS scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the University is unable to separately 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.

Following FRS 17 the ERBS current service cost of providing retirement benefits to employees during the year is charged to the operating surplus or deficit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to the operating surplus or deficit in the year. The expected return on the assets during the year based on the market value of scheme assets at the start of the financial year is included within other finance (charges)/income. This also includes a charge representing the expected increase in the liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement of recognised gains and losses in the year, together with differences from changes in assumptions. The net deficit on the ERBS is reported on the balance sheet within the pension liability.

Further information on both the USS and ERBS pension schemes and post-retirement benefits is disclosed in note 31.

6. REPAIRS AND MAINTENANCE

The University has a five-year rolling long-term maintenance plan, which forms the basis of the on-going maintenance of the estate. Expenditure on long term maintenance which does not either enhance an asset beyond its original condition or increase its expected economic life; and expenditure on all routine corrective maintenance, is charged to the income and expenditure account as incurred.

7. TAXATION

No provision for taxation, deferred or otherwise, has been made in the University's accounts as it 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 Income and Corporation Taxes Act (ICTA) 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 ICTA 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.

Except for its trading activities and certain consultancy, research activities and aspects of administration and central services, the University cannot recover Value Added Tax (VAT) suffered on its expenditure and this cost is included under the various related expenditure heads.

The University's subsidiary companies are subject to Corporation Tax and VAT in the same way as any other commercial organisation.

8. LAND AND BUILDINGS

Land and buildings are stated at valuation or, in the case of buildings in the course of construction or constructed since the last valuation, at cost. The basis of valuation is existing use value for non-specialised buildings, depreciated replacement cost for specialised buildings or, if appropriate and in certain circumstances, open market value.

The University has adopted a policy to fully revalue land and buildings every five years with an interim valuation in the third year.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their expected remaining useful lives, subject to a maximum of 50 years, on a straight-line basis. Buildings in the course of construction are not depreciated.

Leasehold buildings are depreciated over their expected useful lives, subject to a maximum of 50 years, on a straight-line basis.

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Improvements, adaptations and remodelling of buildings are capitalised at cost and are depreciated over their expected useful life, subject to a maximum of 50 years, on a straight-line basis. Finance costs directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

Where expenditure incurred on the development of new premises includes the cost of equipping the premises with furniture and equipment, etc., irrespective of the cost of individual items, this expenditure is capitalised together with the construction cost.

Where buildings are acquired or improved with the aid of specific grants, they are capitalised and depreciated in accordance with the policy above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the buildings.

All buildings are regularly reviewed for indications of impairment. Where there is impairment caused by a clear consumption of economic benefit the difference between the assessed recoverable value of the building and its written down value is charged to the income and expenditure account. Other impairment losses on revalued fixed assets are recognised in the statement of total recognised gains and losses and set against any revaluation surplus until the carrying amount of the fixed asset reaches depreciated historical cost and thereafter in the income and expenditure account.

9. MAJOR REFURBISHMENTS

Major replacement and refurbishment work is capitalised if the work creates or enhances an existing asset, or improves or substantially overhauls an asset. The costs are depreciated over the appropriate period as described elsewhere within the statement of principal accounting policies.

10. EQUIPMENT

Equipment, including computers and software, that individually has a cost equal to or greater than £25,000 is capitalised.

Equipment, including computers and software, that collectively have a cost equal to or greater than £25,000

where the assets are functionally interdependent or are purchased together but are intended to be used for a common purpose and are under common management control are capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computer equipment and IT infrastructure	4 to 8 years
Equipment acquired for specific research projects	project life (generally 3years)
Other equipment	8 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment (the period of the grant in respect of specific research projects).

11. LEASED ASSETS

Where assets are financed by leasing arrangements that give rights approximating to ownership (finance leases), the assets are treated as if they had been purchased outright and the corresponding liability to the leasing company is included as an obligation under finance leases. Depreciation on leased assets is charged to the income and expenditure on the same basis as above. Leasing payments are treated as consisting of capital and interest elements and the interest is charged to the income and expenditure account over the period of the lease.

All other leases are operating leases and the annual rentals payable are charged to the Income and Expenditure Account.

12. 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.

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these 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 institution.
2. 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.
3. 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.

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.

13. INVESTMENTS

Fixed asset investments are included in the balance sheet at market value. Increases/decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where permanent diminution in value of an asset occurs, the excess will be charged to the income and expenditure account to the extent it is not covered by a revaluation surplus.

Endowment asset investments are carried at market value. Such investments held at the previous year-end, and carried at market value at that date, may be sold during the year. This crystallises the value and any difference between the opening market value and the sale proceeds represents a

revaluation movement. Consequently the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together treated as changes in the value of the investment portfolio.

Current asset investments are included at the lower of cost and net realisable value.

14. STOCK

Stock is shown at the lower of cost and net realisable value for building maintenance, bars, residences and catering stores, and the University Shop. Where necessary, provision is made for obsolete, slow-moving and defective stocks.

Stocks of consumables held for administration purposes and in academic schools are not valued.

15. CASH FLOWS AND LIQUID RESOURCES

Cash flows comprise increases and 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.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and certificates of deposit held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

16. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2008

		Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	Note	£'000	£'000
INCOME			
Funding body grants	2	63,544	57,898
Tuition fees and education contracts	3	45,507	35,179
Research grants and contracts	4	24,497	20,100
Other income (incl. share of joint ventures)	5	46,805	39,583
Endowment and investment income	6	4,216	3,336
Other financial income	31	772	170
		<hr/>	<hr/>
Total income		185,341	156,266
Less: Share of income from joint ventures	14	(6,600)	(3,441)
		<hr/>	<hr/>
Net Income		178,741	152,825
		<hr/>	<hr/>
EXPENDITURE			
Staff costs	7	100,480	90,082
Other operating expenses	8	58,460	50,423
Depreciation	8	11,594	10,054
Interest payable	9	4,930	4,944
		<hr/>	<hr/>
Total expenditure		175,464	155,503
		<hr/>	<hr/>
Operating surplus/(deficit)		3,277	(2,678)
Share of operating loss in joint ventures	14	(866)	(817)
		<hr/>	<hr/>
Total operating surplus/(deficit)		2,411	(3,495)
		<hr/>	<hr/>

UNIVERSITY OF EXETER
 CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
 — for the year ended 31 July 2008

	Note	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 Restated £'000
Total operating surplus/(deficit)		2,411	(3,495)
Exceptional items: continuing operations			
Surplus on disposal of land and buildings	10	1,628	3,188
Impairment of land and buildings	10	(2,805)	-
Refinancing charges	10	(4,402)	-
Deficit on continuing operations		(3,168)	(307)
Deficit for the year transferred from accumulated income in endowment funds	15/22	206	37
Deficit for the year	11	(2,962)	(270)

The income and expenditure account is in respect of continuing activities.

NOTE OF HISTORICAL COST RESULTS

Deficit for the year		(2,962)	(270)
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	23	4,522	4,295
Release of previous years property revaluation surpluses on current year disposals and impairments	23	477	2,078
Historical cost surplus for the year		2,037	6,103

UNIVERSITY OF EXETER
 STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS
 AND LOSSES — for the year ended 31 July 2008

		Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	Note	£'000	£'000
Deficit on continuing operations		(3,168)	(307)
Revaluation loss on impairment of tangible assets	23	(14,331)	–
Revaluation gain on tangible fixed assets held in joint venture		–	354
Revaluation (loss)/gain on fixed asset investments	23	(1,829)	512
(Depreciation)/Appreciation of endowment asset investments	15/22	(2,366)	2,270
New endowments	15/22	12	8
Actuarial (loss)/gain on pension scheme	31	(3,354)	12,120
Actuarial gain on pension scheme in joint venture		13	57
Total recognised (losses)/gains in the year		(25,023)	15,014
Prior year adjustments: Endowments	1	(40)	
Prior year adjustments: Exeter University Foundation	1	6,076	
Total recognised losses since last financial statements		(18,987)	
Reconciliation			
Opening reserves and endowments – as previously reported		322,528	308,096
Prior year adjustments: Endowments		(40)	(28)
Prior year adjustments: Exeter University Foundation		6,076	5,482
Opening reserves and endowments – restated		328,564	313,550
Total recognised (losses)/gains for the year		(25,023)	15,014
Closing reserves and endowments		303,541	328,564

UNIVERSITY OF EXETER
BALANCE SHEETS AS AT 31 JULY 2008

	Notes	Group		University	
		2008 £'000	2007 Restated £'000	2008 £'000	2007 Restated £'000
Fixed assets					
Tangible assets	12	436,242	442,474	436,174	442,536
Investments	13	11,665	12,630	8,152	8,411
Investments in joint ventures	14	1,463	2,304	–	–
		<u>449,370</u>	<u>457,408</u>	<u>444,326</u>	<u>450,947</u>
Endowment asset investments	15	15,974	18,534	15,974	18,534
Current assets					
Stock		571	623	571	622
Debtors	16	22,368	21,376	23,994	22,655
Investments		21,000	8,050	21,000	8,050
Restricted cash at bank	17	–	8,688	–	8,688
Cash at bank and in hand		23,196	21,225	22,192	20,196
		<u>67,135</u>	<u>59,962</u>	<u>67,757</u>	<u>60,211</u>
Creditors: amounts falling due within one year	18	(46,344)	(39,022)	(46,018)	(38,830)
Net current assets		<u>20,791</u>	<u>20,940</u>	<u>21,739</u>	<u>21,381</u>
Total assets less current liabilities		<u>486,135</u>	<u>496,882</u>	<u>482,039</u>	<u>490,862</u>
Creditors: amounts falling due after more than one year	19	(83,180)	(77,871)	(85,135)	(79,826)
Less: Provisions for liabilities	20	(893)	(1,899)	(893)	(1,899)
Total net assets excluding pension liability		<u>402,062</u>	<u>417,112</u>	<u>396,011</u>	<u>409,137</u>
Net pension liability	31	(5,308)	(2,990)	(5,308)	(2,990)
Total net assets including pension liability		<u>396,754</u>	<u>414,122</u>	<u>390,703</u>	<u>406,147</u>
Deferred capital grants	21	93,213	85,558	93,213	85,558
Endowments					
Expendable	22	1,709	2,239	1,709	2,239
Permanent	22	14,265	16,295	14,265	16,295
		<u>15,974</u>	<u>18,534</u>	<u>15,974</u>	<u>18,534</u>
Reserves					
Income and expenditure reserve (excl. Pension reserve)		42,658	41,644	39,771	38,445
Pension Reserve		(5,308)	(2,990)	(5,308)	(2,990)
Income and expenditure reserve (incl. Pension reserve)	24	37,350	38,654	34,463	35,455
Revaluation reserve	23	250,217	271,376	247,053	266,600
Total reserves		<u>287,567</u>	<u>310,030</u>	<u>281,516</u>	<u>302,055</u>
TOTAL		<u>396,754</u>	<u>414,122</u>	<u>390,703</u>	<u>406,147</u>

UNIVERSITY OF EXETER
CONSOLIDATED CASH FLOW STATEMENT
— for the year ended 31 July 2008

		Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	Note	£'000	£'000
Cash inflow from operating activities	25	13,052	5,261
Returns on investments and servicing of finance	26	(3,313)	(1,675)
Taxation		—	—
Capital expenditure and financial investment	27	1,193	2,539
Management of liquid resources	28	(12,950)	(8,050)
Financing	29	4,171	241
Increase/(Decrease) in cash in the year	30	<u>2,153</u>	<u>(1,684)</u>

Reconciliation of net cash flow to movement in net debt

		2008	2007 Restated
		£'000	£'000
Increase/(Decrease) in cash in the year	30	2,153	(1,684)
Cash (inflow) from new secured loans	29	(82,690)	(1,832)
Cash outflow from repayment of loans	29	78,519	1,591
Other movements from creditors due in more than one year	30	—	(1,239)
Cash outflow from liquid resources	28	<u>12,950</u>	<u>8,050</u>
Movement in net debt in the year		10,932	4,886
Net debt at 1 August		<u>(50,167)</u>	<u>(55,053)</u>
Net debt at 31 July	30	<u>(39,235)</u>	<u>(50,167)</u>

NOTES TO THE ACCOUNTS

NOTE I - PRIOR YEAR ADJUSTMENT NOTE

	FA investm't £'000	Endowm't asset £'000	Debtors at bank £'000	Cash £'000	Creditors: <1yr £'000	Endowm't reserve £'000	Reval'n reserve £'000	I & E reserve £'000
Endowments								
Reclassification of endowments to fixed asset investments	305	(333)	–	–	–	333	(240)	(65)
Previously unrecognised endowment and investment income:								
Years ended 31/07/01 to 31/07/06	28	(28)	–	–	–	28	–	(28)
Write back of permanent endowment capital expended:								
Years ended 31/07/01 to 31/07/06	–	9	(9)	–	–	(9)	–	9
	333	(352)	(9)	–	–	352	(240)	(84)
Previously unrecognised endowment and investment income:								
Year ended 31/07/07	10	(8)	–	–	–	8	–	(10)
Previously unrecognised profit on sale of investments:								
Year ended 31/07/07 *	88	34	51	–	–	(34)	–	(139)
Previously unrecognised changes in market value in fixed asset investments: Year ended 31/07/07	(45)	(142)	–	–	–	142	45	–
Write back of permanent endowment capital expended: Year ended 31/07/07	–	5	(5)	–	–	(5)	–	5
	386	(463)	37	–	–	463	(195)	(228)
Exeter University Foundation								
Introduction of Exeter University Foundation: as at 31/07/06	5,485	–	(236)	236	(3)	–	(1,255)	(4,227)
Previously unrecognised transactions – Exeter University Foundation: Year ended 31/07/07	944	–	(950)	598	2	–	(294)	(300)
	6,429	–	(1,186)	834	(1)	–	(1,549)	(4,527)
Total adjustments	6,815	(463)	(1,149)	834	(1)	463	(1,744)	(4,755)
As previously stated as at 31 July 2007	5,815	18,997	22,525	20,391	(39,021)	(18,997)	(269,632)	(33,899)
Restated as at 31 July 2007	12,630	18,534	21,376	21,225	(39,022)	(18,534)	(271,376)	(38,654)

The prior year adjustment relates to the new 'Statement of Recommended Practice (SORP): Accounting for Further and Higher Education' issued in June 2007 and the consolidation of the Exeter University Foundation for the first time.

* Due to the onerous nature and lack of prior year records for this information it was decided only to adjust the previous year.

NOTES TO THE ACCOUNTS

NOTE 2 – FUNDING BODY GRANTS

	Year Ended 31 July 2008			Year Ended
	HEFCE £'000	TDA £'000	TOTAL £'000	31 July 2007 £'000
Recurrent teaching grant	38,401	3,113	41,514	38,441
Recurrent research grant	14,585	–	14,585	13,554
Specific grants	3,675	1,210	4,885	3,932
Deferred capital grants released in year (note 21)	2,560	–	2,560	1,971
	<u>59,221</u>	<u>4,323</u>	<u>63,544</u>	<u>57,898</u>

NOTE 3 TUITION FEES AND EDUCATION CONTRACTS

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 £'000
Home/EU undergraduates: full-time	22,310	15,407
Home/EU undergraduates: part-time	267	293
Home/EU postgraduates: full-time	6,358	5,717
Home/EU postgraduates: part-time	1,988	1,806
International students	12,316	10,452
Non-credit bearing courses and other tuition fees	2,071	1,296
Research Training Support Grants	197	208
	<u>45,507</u>	<u>35,179</u>

NOTE 4 RESEARCH GRANTS AND CONTRACTS

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 Restated £'000
Research councils	10,730	8,657
UK based charities	3,077	2,473
UK central government, local authorities, health & hospital authorities	5,921	4,081
UK industry, commerce and public corporations	2,360	1,690
European Union government and other bodies	1,771	2,257
Other grants and contracts	638	942
	<u>24,497</u>	<u>20,100</u>

Included above are deferred capital grants released in the year of £451,000 (2007: £361,000).

The figures for the year ending 31 July 2007 have been restated due to the reclassification of income totalling £580,000 relating to Knowledge Transfer Partnership which was previously disclosed under 'Other income'.

NOTES TO THE ACCOUNTS

NOTE 5 OTHER INCOME

	Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	£'000	£'000
Residences, catering and conferences	21,315	20,804
Other services rendered		
Validation fees	139	133
UK central government, local authorities, health and hospital authorities	1,122	979
Others	309	1,999
Income from health and hospital authorities	3,280	2,272
Other operating income		
Other external grants	2,814	1,504
Conferences, summer schools, fair and degree day income	654	812
Donations and other fundraising	1,360	662
Erasmus	490	502
Sports and swimming pools	777	697
Externally recharged staff time	442	434
Supplies and services to external customers	415	363
Rental income and room hire	873	432
Peninsula College of Medicine and Dentistry	207	217
Tremough Campus Services	3,952	3,060
INTO University of Exeter LLP	2,649	381
Release of deferred capital grants	1,257	946
Other income	4,750	3,386
	46,805	39,583

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustments and the reclassification of income totalling £580,000 relating to Knowledge Transfer Partnerships which is now disclosed under 'Research grants and contracts'.

NOTE 6 ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	£'000	£'000
Income from expendable endowments (note 22)	36	179
Income from permanent endowments (note 22)	542	382
Income from short term investments	2,492	1,707
Income from fixed asset investments	292	203
Surplus on disposal of fixed asset investments	668	797
Other interest receivable	186	68
	4,216	3,336

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustment.

NOTES TO THE ACCOUNTS

NOTE 7 STAFF COSTS

The average number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:

	Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	Number	Number
Academic staff	631	559
Research staff	271	256
Teaching fellows (formerly tutors)	75	104
Occasional lecturers	33	25
Support staff	1,547	1,462
Casuals	132	142
Total	<u>2,689</u>	<u>2,548</u>

The staff numbers for the year ended 31 July 2007 have been restated to include 50% of the numbers that are employed by the Peninsula College of Medicine and Dentistry whether employed by the University of Exeter or the University of Plymouth (previously they included the University of Exeter employed PCMD staff).

Staff costs for the above persons:

	Year Ended 31 July 2008	Year Ended 31 July 2007
	£'000	£'000
Salaries and wages	84,379	75,556
Social security costs	6,007	5,715
Pension costs (note 31)	10,094	8,811
	<u>100,480</u>	<u>90,082</u>
Emoluments of the Vice-Chancellor:		
Remuneration (including benefits in kind)	261	210
Pension contributions to USS	40	36
	<u>301</u>	<u>246</u>

Emoluments for senior staff are determined by the Remuneration Committee as set out in the Corporate Governance and Internal Control Statement.

NOTES TO THE ACCOUNTS

NOTE 7 STAFF COSTS contd

Remuneration of higher paid staff, excluding employer's pension contributions but inclusive of payments made on behalf of the NHS and partner institutions in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded in the University's income and expenditure account:

	Year Ended 31 July 2008	Year Ended 31 July 2007
£100,000 – £109,999	–	1
£110,000 – £119,999	7	–
£120,000 – £129,999	3	–
£130,000 – £139,999	1	–
£140,000 – £149,999	–	1
£150,000 – £159,999	1	–
£160,000 – £169,999	–	1
£170,000 – £179,999	1	–
£200,000 – £209,999	–	1
£210,000 – £219,999	–	1
£240,000 – £249,999	1	–
£260,000 – £269,999	1	–

Included in the above are members of staff whose annual salary falls into one of the above bands but who joined the University part way through the year.

NOTES TO THE ACCOUNTS

NOTE 8 OTHER OPERATING EXPENSES

	Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	£'000	£'000
Residences, catering and conferences	8,415	8,043
Rents and rates	540	511
Heat, light, water and power	3,338	1,970
Repairs and general maintenance (see note 20)	3,049	3,763
Laboratory equipment and consumables	3,467	2,654
IT hardware, software and licences	2,580	2,444
Other equipment	1,586	1,086
Books and periodicals	2,474	2,185
Non-contract staff and external examiners	5,618	4,274
Administrative costs including postage and telephones	2,348	2,164
Insurances	457	515
Publicity, publications and student recruitment	1,581	1,261
Travel, accommodation, subsistence and hospitality	4,935	4,738
Fellowships, scholarships and prizes	7,679	4,566
Field courses and other student support	4,822	5,770
Legal, professional and consultancy fees	2,671	2,317
Auditor's remuneration	55	65
Auditor's remuneration in respect of non-audit services	37	10
Cornwall Combined Services	2,092	1,576
Other expenses	716	511
	<u>58,460</u>	<u>50,423</u>

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustment.

NOTES TO THE ACCOUNTS

NOTE 8 OTHER OPERATING EXPENSES *contd*

ANALYSIS OF EXPENDITURE BY ACTIVITY

2007/08	Staff Costs £'000	Other Operating Expenses £'000	Depreciation £'000	Interest Payable £'000	Total £'000
Academic schools	52,027	14,535	407	–	66,969
Academic services	6,886	4,961	110	–	11,957
Research grants and contracts	13,909	5,929	451	–	20,289
Residences, catering and conferences	6,271	8,187	3,172	3,455	21,085
Premises	5,722	8,933	7,282	1,417	23,354
Administration and central services	14,673	15,194	172	58	30,097
Other expenses	992	721	–	–	1,713
	<u>100,480</u>	<u>58,460</u>	<u>11,594</u>	<u>4,930</u>	<u>175,464</u>

The depreciation charge has been funded by:

Deferred capital grants released – buildings (note 21)	2,612
Deferred capital grants released – equipment (note 21)	1,656
Revaluation reserve released (note 23)	4,522
General income	2,804
	<u>11,594</u>

NOTES TO THE ACCOUNTS

NOTE 8 OTHER OPERATING EXPENSES *contd*

ANALYSIS OF EXPENDITURE BY ACTIVITY

2006/07 – restated

	Staff Costs	Other Operating Expenses Restated	Depreciation	Interest Payable	Total
	£'000	£'000	£'000	£'000	Restated £'000
Academic schools	47,635	16,593	384	–	64,612
Academic services	6,447	3,887	68	–	10,402
Research grants and contracts	10,937	2,716	362	–	14,015
Residences, catering and conferences	6,678	7,834	2,937	3,519	20,968
Premises	5,361	7,610	6,242	1,362	20,575
Administration and central services	11,828	11,002	61	63	22,954
Other expenses	1,196	781	–	–	1,977
	90,082	50,423	10,054	4,944	155,503

The depreciation charge has been funded by:

Deferred capital grants released – buildings	2,270
Deferred capital grants released – equipment	1,008
Revaluation reserve released	4,295
General income	2,481
	<u>10,054</u>

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustment.

Included within 'Legal, professional and consultancy fees' is £98,000 (2007: £55,000) relating to internal audit fees.

In addition, there was a £772,000 pension credit (2007: £170,000 pension cost) that was charged to the Income and Expenditure Account (see note 31).

NOTE 9 INTEREST PAYABLE

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 £'000
On bank loans and overdrafts:		
Repayable within 5 years, by instalments	–	1
Repayable wholly or partly in more than 5 years	4,930	4,943
	<u>4,930</u>	<u>4,944</u>

In addition, interest payable in the year amounting to £nil (2007: £51,000) was capitalised. This interest related to borrowings in respect of the development of new student residences whilst under construction.

NOTES TO THE ACCOUNTS

NOTE 10 EXCEPTIONAL ITEMS

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 £'000
(Surplus) on disposal of land and buildings (note 10A)	(1,628)	(3,188)
Impairment of land and buildings (note 10B)	2,805	–
Refinancing charges (note 10C)	4,402	–
	5,579	(3,188)

NOTE 10A EXCEPTIONAL ITEM – SURPLUS ON DISPOSALS OF LAND AND BUILDINGS

During the year various off-campus sites were sold (half of the land at the Rowancroft student residence site and Elizabethan, an outlying house). The proceeds from these sales were reinvested into the University's strategic aims.

During the previous year various off-campus sites were sold (Crossmead Conference Centre, Bonhay House, Belfield House and a strip of land at the Gras Lawn site). The proceeds from these sales were also reinvested into the University's strategic aims.

NOTE 10B EXCEPTIONAL ITEM – IMPAIRMENT OF LAND AND BUILDINGS

During the year there have been detailed discussions with third party residence providers regarding the provision of new student residences on the Streatham campus and the modernisation of certain existing residences. As such the existing residences that are being offered in this package are considered to only have a useful economic life of a further two years from the balance sheet date and have been impaired to reflect this.

NOTE 10C EXCEPTIONAL ITEM – REFINANCING CHARGES

During the year the University consolidated its existing bank loans and arranged further finance to support its strategic aims under the Finance Strategy and Infrastructure Strategy. The new bank facilities were fixed at lower interest rates than the existing loans but the refinancing resulted in breakage charges of £4.4m.

See note 19 for details of the new bank loan facilities.

NOTE 11 DEFICIT ON CONTINUING OPERATIONS FOR THE YEAR

	Year Ended 31 July 2008 £'000	Year Ended 31 July 2007 Restated £'000
University's (deficit)/surplus for the year	(2,575)	249
Deficit generated by subsidiary undertakings and joint ventures	(387)	(519)
	(2,962)	(270)

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustment.

NOTES TO THE ACCOUNTS

NOTE 12 TANGIBLE FIXED ASSETS

Group	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000		
Cost or Valuation				
At 1 August 2007	408,754	36,844	14,600	460,198
Additions	15,982	1,007	6,324	23,313
Disposals (note 10A)	(815)	–	(407)	(1,222)
At 31 July 2008	423,921	37,851	20,517	482,289
Depreciation				
At 1 August 2007	7,711	1,878	8,135	17,724
Charge for the year (note 8)	8,254	1,198	2,142	11,594
Impairment – historic cost (note 10B)	2,805	–	–	2,805
Impairment – revaluation (note 10B)	14,331	–	–	14,331
Disposals (note 10A)	–	–	(407)	(407)
At 31 July 2008	33,101	3,076	9,870	46,047
Net Book Value				
At 31 July 2008	390,820	34,775	10,647	436,242
At 31 July 2007	401,043	34,966	6,465	442,474
Financed by capital grant	54,486	30,863	7,864	93,213
Other	336,334	3,912	2,783	343,029
At 31 July 2008	390,820	34,775	10,647	436,242

- a) The total cost of land and buildings is mainly attributable to the development or purchase of property for teaching, research or accommodation purposes.
- b) Freehold and leasehold land and buildings with a value of £62.3m (2007: £61.9m) have been financed, in whole or in part, by exchequer funds. If the University fails one of two 'trigger events' noted in the Financial Memorandum with HEFCE, then the full amount of the exchequer interest would become repayable.
- c) At 31 July 2008 freehold and leasehold land and buildings included £10.1m (2007: £14.4m) in respect of buildings under construction.
- d) Included in the cost of freehold land and buildings is £1.1m (2007: £1.1m) bank loan interest payable that has been capitalised. These finance costs are directly attributable to the construction of student residences and were capitalised as part of the cost of those assets whilst they were in the course of construction.

NOTES TO THE ACCOUNTS

NOTE 12 TANGIBLE FIXED ASSETS contd

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000		
Cost or Valuation				
At 1 August 2007	408,859	36,796	14,605	460,260
Additions	15,982	1,007	6,146	23,135
Disposals (note 10A)	(815)	–	(407)	(1,222)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2008	424,026	37,803	20,344	482,173
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 August 2007	7,711	1,873	8,140	17,724
Charge for the year	8,254	1,195	2,097	11,546
Impairment – historic cost (note 10B)	2,805	–	–	2,805
Impairment – revaluation (note 10B)	14,331	–	–	14,331
Disposals (note 10A)	–	–	(407)	(407)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2008	33,101	3,068	9,830	45,999
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 July 2008	390,925	34,735	10,514	436,174
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2007	401,148	34,923	6,465	442,536
	<hr/>	<hr/>	<hr/>	<hr/>

As stated in the Statement of Principal Accounting Policies the University adopts the policy of revaluing land and buildings.

The external chartered surveyors, Messrs. King Sturge, performed the valuation as at 31 July 2006. The valuations at this date were as follows:

	Group £'000	University £'000
Freehold land and buildings	393,327	393,432
Long leasehold land and buildings	29,044	29,000

The valuations include a notional amount for professional fees and other incidental expenses. Other than the impairment of certain assets, as stated in note 10B, the University is not aware of any material change in value and therefore the valuations have not been updated.

If this revaluation had not taken place the historical cost net book values are as follows:

	Group £'000	University £'000
Freehold land and buildings	150,939	151,045
Long leasehold land and buildings	31,984	31,940

NOTES TO THE ACCOUNTS

NOTE 13 INVESTMENTS

	Group		University	
	2008	2007 Restated	2008	2007 Restated
	£'000	£'000	£'000	£'000
Fine art collection	1,279	1,279	1,279	1,279
Library special collection	2,354	2,354	2,354	2,354
Quoted stock	7,990	8,948	2,267	2,519
Subsidiary undertakings	–	–	2,210	2,210
Other investments	42	49	42	49
	<u>11,665</u>	<u>12,630</u>	<u>8,152</u>	<u>8,411</u>

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustment.

The University's fine art collection of paintings, drawings, sculptures, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2006 by Messrs. Bearn's, Fine Art Auctioneers and Valuers, on an open market value basis.

The University's library special collections were also professionally valued during the year ended 31 July 2006 by Messrs. Bearn's, Fine Art Auctioneers and Valuers, on an open market value basis.

The investment in subsidiary undertakings comprises the following:

Name	Shareholding	Principal business activity
Dartvale Limited	2,000,002 Ordinary £1	Property development
Exeter Enterprises Limited	60,110 Ordinary £1	Consultancy activities
Innovation Exeter Limited	1 Ordinary £1	Dormant company
Exeter ISC Limited	100 Ordinary £1 and 149,900 Redeemable preference £1	Holding company

The University wholly owns the above holdings and all companies are registered in England and Wales.

Exeter Enterprises Limited wholly owns the following undertakings, both of which registered in England and Wales:

Name	Shareholding	Principal business activity
UEC Enterprises Limited	1,000 Ordinary £1	Consultancy activities
Peninsula Innovations Limited	2 Ordinary £1	Property management services

NOTE 13 INVESTMENTS contd

Other investments of the University comprise the following:

Name	Holding
Adsfab Limited	1,000 Ordinary "C" £1 shares
Auxetix Limited	107,143 Ordinary £0.001 shares
Curzon 1011 Limited	1 Ordinary £1 shares
CVCP Properties Plc	37,355 Ordinary £1 share
Exeter Nanobacteria Limited	400 Ordinary £0.10 shares
Industrial Tomography Systems Plc	249,564 Ordinary £0.01 shares
Simpleware Limited	100 Ordinary £1 shares
Skipworth Engelhardt Asset Management Strategists Limited	152 Ordinary "A" £1 and 405 Deferred £1 shares
Trireme Systems	287 Series B preferred stock \$0.01

The Exeter University Foundation

The activities of the Exeter University Foundation, a registered charity, have been consolidated for the first time this year (together with a prior year adjustment - see note 1) on the grounds that the University has a controlling influence over its activities.

The Foundation is a development trust established to attract and distribute funds for the benefit of the University.

NOTE 14 INVESTMENT IN JOINT VENTURES

Peninsula College of Medicine and Dentistry

On 1 September 2006 the Peninsula Medical School (PMS) changed its name to the Peninsula College of Medicine and Dentistry (PCMD) to encompass its revised activities. PCMD is not a legal entity in its own right - it is a joint arrangement entered into by the University of Exeter and the University of Plymouth. A 50% share of the income, expenditure and balance sheet items of the "HE Community Chest" of PCMD is included within the income and expenditure account and balance sheet of each of the Universities.

See note 39 for a detailed analysis of PCMD.

Tremough Campus Services

The University holds a 50% share of Tremough Campus Services (TCS), a company limited by guarantee, having no share capital and for which exempt charitable status has been obtained. TCS is a joint venture company owned equally by the University and University College Falmouth (UCF).

TCS has been established to operate student and commercial services for the Combined Universities in Cornwall campus at Tremough in Penryn under a combined services agreement and commenced trading in August 2004.

Tremough Development Vehicle Limited (TDV) is a wholly owned subsidiary of TCS. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Tremough in Penryn.

TCS and TDV have financial years that end on 31 July.

NOTES TO THE ACCOUNTS

NOTE 14 INVESTMENT IN JOINT VENTURES contd

INTO University of Exeter LLP

On 30 October 2006 the University formed the wholly owned subsidiary Exeter ISC Limited. Exeter ISC Limited holds a 50% share of INTO University of Exeter LLP, a limited liability partnership. INTO University of Exeter LLP is a joint venture partnership with INTO University Partnerships Limited and the remaining 50% share is owned by INTO Exeter Limited, a wholly owned subsidiary of INTO University Partnerships Limited.

INTO University of Exeter LLP was formed in December 2006 and operates from the University of Exeter's Streatham campus. Its principal activity is the provision of English language and pre university foundation, diploma and pre masters' courses.

Exeter ISC Limited and INTO University of Exeter LLP have financial years that end on 31 July.

Both the TCS and INTO University of Exeter LLP arrangements are treated as joint ventures and are accounted for using the gross equity method, such that 50% of each of the companies net equity (gross assets less gross liabilities) are included in the consolidated balance sheet of the University and 50% of their net income is reported in the University's consolidated income and expenditure account. Both companies have entered into a gift aid arrangement to distribute surpluses arising on its activities to the University and joint venture partners accordingly.

The University's share in its joint ventures are as follows:

	2008	2007
	£'000	£'000
<u>Share of income:</u>		
Tremough Campus Services	3,951	3,060
INTO University of Exeter LLP	2,649	381
	<u>6,600</u>	<u>3,441</u>
<u>Share of operating deficit:</u>		
Tremough Campus Services	(494)	(417)
INTO University of Exeter LLP	(372)	(400)
	<u>(866)</u>	<u>(817)</u>
<u>Share of gross assets:</u>		
Tremough Campus Services	19,740	20,790
INTO University of Exeter LLP	2,658	977
	<u>22,398</u>	<u>21,767</u>
<u>Share of gross liabilities:</u>		
Tremough Campus Services	(17,822)	(18,391)
INTO University of Exeter LLP	(3,113)	(1,072)
	<u>(20,935)</u>	<u>(19,463)</u>
<u>Share of net assets/(liabilities):</u>		
Tremough Campus Services	1,918	2,399
INTO University of Exeter LLP	(455)	(95)
	<u>1,463</u>	<u>2,304</u>

NOTES TO THE ACCOUNTS

NOTE 15 ENDOWMENT ASSET INVESTMENTS – Group and University

	2008	2007
	£'000	Restated £'000
Balance at 1 August – as previously reported	18,997	16,645
Prior year adjustment – Endowments	(463)	(352)
	18,534	16,293
Balance at 1 August – restated	18,534	16,293
New endowments invested	12	8
(Decrease) / Increase in market value of investments	(2,366)	2,270
(Decrease) in cash balances held for endowment funds	(206)	(37)
	15,974	18,534
Balance at 31 July	15,974	18,534
The investments comprise:		
Fixed interest stocks	2,392	1,548
Equities	10,949	15,465
Property	105	–
Bank balances	2,528	1,521
	15,974	18,534

NOTE 16 DEBTORS

	Group		University	
	2008	2007	2008	2007
	£'000	Restated £'000	£'000	Restated £'000
Amounts falling due within one year:				
Debtors	10,655	7,067	10,646	7,013
Prepayments and accrued income	10,633	13,430	10,543	13,390
Amounts owed by group undertakings:				
Subsidiary companies	–	–	1,725	1,373
Related parties	1,080	879	1,080	879
	22,368	21,376	23,994	22,655

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustments and reclassification of certain balances between debtor categories.

NOTES TO THE ACCOUNTS

NOTE 17 RESTRICTED CASH AT BANK

In the year ended 31 July 2004 a £20m loan facility was arranged with The Royal Bank of Scotland (RBS) as funding for the 2003-06 capital programme. During the year ended 31 July 2005 the composition of this capital programme fundamentally changed.

The original loan agreement stated that a predetermined amount must be drawn each quarter based on the programme's original profile of capital expenditure. The change in composition meant that the funds due to be drawn each quarter were in excess of the expenditure incurred. RBS set up a deposit account to hold the excess funds until they are required for the capital purpose for which they were originally intended.

This deposit account was in the name of the University of Exeter but was controlled by RBS. The balance could only be utilised on receipt by RBS of proof of capital expenditure by the University. The deposit account was not considered to be liquid funds in the University's books. The interest rate payable on the loan facility was 5.82% per annum. The interest rate receivable on the deposit account was 0.05% above the Bank of England base rate.

During the year the University consolidated its existing bank loans and arranged further finance to support its strategic aims under the Finance Strategy and Infrastructure Strategy (see note 10C and 19). As a result the balance of the restricted account was transferred into the University's normal operational account.

NOTE 18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2008	2007 Restated	2008	2007 Restated
	£'000	£'000	£'000	£'000
Bank loans and overdrafts (note 19)	1	1,266	1	1,266
Research grants received on account	7,528	6,069	7,528	6,069
Trade creditors	16,082	12,016	16,060	11,836
Other creditors	11,952	10,311	11,952	10,311
Social security and other taxation payable	2,577	1,943	2,561	1,940
Accruals and deferred income	8,204	7,417	7,916	7,408
	<u>46,344</u>	<u>39,022</u>	<u>46,018</u>	<u>38,830</u>

The figures for the year ending 31 July 2007 have been restated due to the prior year adjustments and reclassification of certain balances between creditor categories.

Other creditors include an amount of £632,000 (2007: £836,000) due in respect of pension liabilities following early retirements.

NOTES TO THE ACCOUNTS

NOTE 19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		University	
	2008	2007	2008	2007
	£'000	£'000	£'000	£'000
Bank loans (see below)	82,690	77,131	82,690	77,131
Inherited Liability – Cornwall County Council	44	51	44	51
Other long term creditors	446	689	446	689
Amounts owed to group undertakings:				
Subsidiary companies	–	–	1,955	1,955
	83,180	77,871	85,135	79,826
	83,180	77,871	85,135	79,826

Other long-term creditors include an amount of £446,000 (2007: £689,000) due in respect of pension liabilities following early retirements.

a) Bank loans and overdrafts

	2008	2007
	£'000	£'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	1	183
Bank loans:		
In one year or less	–	1,083
In one to two years	–	1,197
In two to five years	–	4,303
In five years or more	82,690	71,631
	82,691	78,397
	82,691	78,397

NOTES TO THE ACCOUNTS

NOTE 19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR contd

i) Included within the total balance above is the following:

	Facility £'000	Interest Rate %	Repayment	Term	2008 £'000	2007 £'000
<u>National Westminster Bank Plc</u>	100,000					
Tranches 1 and 2		5.54	Quarterly	35 years (to 2043)	31,779	–
Tranche 3		5.40	Quarterly	35 years (to 2043)	20,230	–
<u>Barclays Bank Plc</u>	65,000					
Tranches 1 and 2		5.53	Quarterly	35 years (to 2043)	20,413	–
Tranche 3		5.41	Quarterly	35 years (to 2043)	10,268	–
Barclays Bank Plc	29,657	5.88	Quarterly	27 years (to 2032)	–	29,505
Royal Bank of Scotland Plc	22,000	7.66	Quarterly	25 years (to 2029)	–	20,712
Royal Bank of Scotland Plc	22,306	5.82	Quarterly	28 years (to 2032)	–	22,306
Royal Bank of Scotland Plc	5,705	LIBOR plus mark up	Annually	25 years (to 2016)	–	3,037
Royal Bank of Scotland Plc	1,300	LIBOR plus mark up	Quarterly	25 years (to 2023)	–	819
Royal Bank of Scotland Plc	1,291	LIBOR plus mark up	Annually	25 year (to 2022)	–	775
Barclays Bank Plc	1,250	LIBOR plus	Quarterly	25 years (to 2025)	–	1,060
					82,690	78,214
Repayable within one year					–	(1,083)
					82,690	77,131

During the year the University consolidated its existing bank loans and arranged further finance to support its strategic aims under the Finance Strategy and Infrastructure Strategy. The new bank loans are unsecured. However, the University has a negative pledge obligation to each of the lenders, whereby it will not grant any security over any of its assets. The University is also not permitted to dispose of any of its assets other than in the ordinary course of its business without the National Westminster Bank Plc's written consent.

Both new bank loans consist of A and B facilities. Both A facilities were drawn in three tranches and the interest rates are fixed, via the interest rate swap transactions mentioned below. The B facilities are undrawn at 31 July 2008.

The interest rate swap transaction with each bank is for the total amount of loan drawn. Each swap transaction incorporates a fixed rate, which is compared with a variable 3 month LIBOR. Both swap transactions are for the term of the loans.

b) Finance Leases

The University is not committed to any finance lease obligations.

NOTES TO THE ACCOUNTS

NOTE 20 PROVISIONS - Group and University

	Building works £'000
Balance at 1 August	1,899
Utilised in year	(1,006)
Balance at 31 July	893

This provision relates to the demolition works and the subsequent provision of infrastructure enhancements at Duryard and at the car park on Stocker Road, in preparation of the INTO University of Exeter LLP developments.

All the initial accounting entries were made in the year ended 31 July 2007. The demolition works totalled £872,000 and was included within 'Repairs and general maintenance' whilst the enhancement of infrastructure work totalled £1,027,000 and was capitalised in 'Land and Buildings'. The provision was reported under 'Accruals and deferred income' within 'Creditors: Amounts falling due within one year'.

NOTE 21 DEFERRED CAPITAL GRANTS – Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2007			
Land and buildings	44,814	36,070	80,884
Equipment	3,266	1,408	4,674
	48,080	37,478	85,558
Grants receivable			
Land and buildings	3,023	4,054	7,077
Equipment	3,669	1,177	4,846
	6,692	5,231	11,923
Released to Income and Expenditure Account			
Land and buildings	1,464	1,148	2,612
Equipment	1,096	560	1,656
	2,560	1,708	4,268
At 31 July 2008			
Land and buildings	46,373	38,976	85,349
Equipment	5,839	2,025	7,864
	52,212	41,001	93,213

NOTES TO THE ACCOUNTS

NOTE 22 ENDOWMENTS – Group and University

		Restricted Permanent £'000	Restricted Expendable £'000	2008 Total £'000	2007 Total Restated £'000
At 1 August – previously reported				18,997	16,645
Prior year adjustment – Endowments				(463)	(352)
At 1 August – restated				<u>18,534</u>	<u>16,293</u>
At 1 August:	Capital	16,053	2,173	18,226	15,948
	Accumulated income	242	66	308	345
		<u>16,295</u>	<u>2,239</u>	<u>18,534</u>	<u>16,293</u>
New endowments		12	–	12	8
Investment income		542	36	578	561
Expenditure		(489)	(295)	(784)	(598)
		<u>53</u>	<u>(259)</u>	<u>(206)</u>	<u>(37)</u>
(Decrease) / Increase in market value of investments		(2,095)	(271)	(2,366)	2,270
At 31 July		<u>14,265</u>	<u>1,709</u>	<u>15,974</u>	<u>18,534</u>
Represented by:	Capital	13,970	1,708	15,678	18,226
	Accumulated income	295	1	296	308
		<u>14,265</u>	<u>1,709</u>	<u>15,974</u>	<u>18,534</u>

In previous years endowments were analysed as general endowments and specific endowments. The revised headings above reflect the requirement of the new SORP and the University's accounting policies. The University does not hold any endowments classed as unrestricted permanent.

Represented:	2008 £'000	2007 Restated £'000
Trustees Security Pool	2,928	3,290
Institute for Arab and Islamic Studies	12,098	13,920
PMS Vandervell	948	1,324
	<u>15,974</u>	<u>18,534</u>

NOTES TO THE ACCOUNTS

NOTE 23 REVALUATION RESERVE

Group

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August – as previously reported	264,813	4,819	269,632
Prior year adjustment - Endowments	–	195	195
Prior year adjustment – Exeter University Foundation	–	1,549	1,549
At 1 August – restated	264,813	6,563	271,376
Revaluation in the year			
Fixed assets investments – Quoted shares	–	(1,829)	(1,829)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(4,522)	–	(4,522)
Release of previous years property revaluation surpluses on current year disposals	(477)	–	(477)
	(4,999)	–	(4,999)
Impairment on re-valued assets	(14,331)	–	(14,331)
	(19,330)	–	(19,330)
At 31 July 2008	245,483	4,734	250,217

University

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2007 – as previously reported	261,586	4,819	266,405
Prior year adjustment – Endowments	–	195	195
At 1 August 2007 – restated	261,586	5,014	266,600
Revaluation in the year			
Fixed assets investments – Quoted shares	–	(279)	(279)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(4,460)	–	(4,460)
Release of previous years property revaluation surpluses on current year disposals	(477)	–	(477)
	(4,937)	–	(4,937)
Impairment on re-valued assets	(14,331)	–	(14,331)
	(19,268)	–	(19,268)
At 31 July 2008	242,318	4,735	247,053

NOTES TO THE ACCOUNTS

NOTE 24 INCOME AND EXPENDITURE RESERVE

	Group		University	
	2008	2007 Restated	2008	2007 Restated
	£'000	£'000	£'000	£'000
Balance at 1 August – as previously reported	33,899	16,062	35,227	16,639
Prior year adjustment – Endowments	228	84	228	84
Prior year adjustment – Exeter University Foundation	4,527	4,227	–	–
Balance at 1 August – restated	38,654	20,373	35,455	16,723
(Deficit)/Surplus for the year	(2,962)	(270)	(2,575)	249
Transfers from revaluation reserve	4,999	6,374	4,937	6,363
Other movements	(3,341)	12,177	(3,354)	12,120
Balance at 31 July	37,350	38,654	34,463	35,455

Represented by Group

	Balance at 1 August 2007 Restated £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2008 £'000
Available reserves					
Schools	1,061	6,019	–	(5,156)	1,924
Professional Services	1,522	(816)	–	104	810
Hospitality Services	1,421	117	–	(1)	1,537
Strategic Development Fund	2,201	256	–	1,292	3,749
Infrastructure Fund	7,335	259	–	(4,011)	3,583
Other reserves	1,343	631	–	(15)	1,959
General reserve	9,151	(10,464)	19,330	(10,944)	7,073
	24,034	(3,998)	19,330	(18,731)	20,635
Committed reserves					
Capital reserve	25,447	–	–	4,819	30,266
Residences equalisation	(7,861)	–	–	(382)	(8,243)
Pension liability	(2,966)	1,036	–	(3,378)	(5,308)
	14,620	1,036	–	1,059	16,715
Total Group reserves	38,654	(2,962)	19,330	(17,672)	37,350

NOTES TO THE ACCOUNTS

NOTE 24 INCOME AND EXPENDITURE RESERVE contd

University	Balance at 1 August 2007 Restated £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2008 £'000
Available reserves					
Schools	1,061	6,019	–	(5,156)	1,924
Professional Services	1,522	(816)	–	104	810
Hospitality Services	1,421	117	–	(1)	1,537
Strategic Development Fund	2,201	256	–	1,292	3,749
Infrastructure Fund	7,335	259	–	(4,011)	3,583
Other reserves	1,343	631	–	(15)	1,959
General reserve	5,976	(10,077)	19,268	(10,980)	4,187
	<u>20,859</u>	<u>(3,611)</u>	<u>19,268</u>	<u>(18,767)</u>	<u>17,749</u>
Committed reserves					
Capital reserve	25,447	–	–	4,818	30,265
Residences equalisation	(7,861)	–	–	(382)	(8,243)
Pension liability	(2,990)	1,036	–	(3,354)	(5,308)
	<u>14,596</u>	<u>1,036</u>	<u>–</u>	<u>1,082</u>	<u>16,714</u>
Total University reserves	<u>35,455</u>	<u>(2,575)</u>	<u>19,268</u>	<u>(17,685)</u>	<u>34,463</u>

NOTE 25 RECONCILIATION OF CONSOLIDATED OPERATING DEFICIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2008 £'000	2007 Restated £'000
Deficit on continuing operations	(2,962)	(270)
FRS 17 – Pension adjustment	(1,036)	(530)
Depreciation (note 8)	11,594	10,054
Impairment of land and buildings (note 10)	2,805	–
Surplus on disposal of tangible fixed assets (note 10)	(1,628)	(3,188)
Deferred capital grants released (note 21)	(4,268)	(3,278)
Endowment and investment income (note 6)	(4,216)	(3,336)
Interest payable (note 9)	4,930	4,944
Decrease in stock	52	10
(Increase) in debtors	(2,985)	(2,797)
Increase in creditors	10,766	3,652
Net cash inflow from operating activities	<u>13,052</u>	<u>5,261</u>

NOTES TO THE ACCOUNTS

NOTE 26 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2008	2007
	£'000	Restated £'000
Income from short term investments	2,312	1,948
Other interest received	186	68
Interest paid	(5,811)	(3,691)
Net cash outflow from returns on investments and servicing of finance	<u>(3,313)</u>	<u>(1,675)</u>

NOTE 27 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2008	2007
	£'000	Restated £'000
Purchase of tangible assets	(25,130)	(30,335)
Payments to acquire long term investments	605	511
Total fixed and endowment assets acquired	<u>(24,525)</u>	<u>(29,824)</u>
Receipts from the sale of tangible assets	2,443	6,596
Receipts from the sale of long term investments	345	54
Receipts from the sale of endowment assets	515	607
Cash withdrawn/(deposited) in restricted deposit account	8,688	1,549
Deferred capital grants received	13,715	23,565
Endowments received	12	(8)
Net cash inflow from capital expenditure and financial investment	<u>1,193</u>	<u>2,539</u>

NOTE 28 MANAGEMENT OF LIQUID RESOURCES

	2008	2007
	£'000	£'000
Cash placed in short term deposits	(12,950)	(8,050)
Net cash outflow from management of liquid resources	<u>(12,950)</u>	<u>(8,050)</u>

NOTE 29 FINANCING

	2008	2007
	£'000	£'000
Debt due beyond one year:		
New loans repayable by 2043	82,690	–
New loans repayable by 2012	–	327
New secured loan repayable by 2032	–	505
New secured loan repayable by 2032	–	1,000
	<u>82,690</u>	<u>1,832</u>
Repayment of amounts borrowed	(78,519)	(1,591)
Net cash inflow from financing	<u>4,171</u>	<u>241</u>

NOTES TO THE ACCOUNTS

NOTE 30 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2007 Restated £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2008 £'000
Cash in hand and at bank	21,225	1,971	–	23,196
Endowment asset investments	–	–	–	–
Overdrafts	(183)	182	–	(1)
	<u>21,042</u>	<u>2,153</u>	<u>–</u>	<u>23,195</u>
Debt due within 1 year	(1,388)	1,138	–	(250)
Debt due after 1 year	(77,871)	(5,309)	–	(83,180)
Current asset investments	8,050	12,950	–	21,000
	<u>(50,167)</u>	<u>10,932</u>	<u>–</u>	<u>(39,235)</u>

NOTE 31 PENSION SCHEMES

The two principal schemes for the University's staff are the national Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS), which are externally invested defined benefit (final salary) schemes, contracted out of the State Second Pension. The assets of the schemes are held in separate trustee-administered funds.

The University also makes contributions to the National Health Superannuation Scheme (NHSS) in respect of a small number of staff at its School of Sport & Health Sciences and the Peninsula College of Medicine and Dentistry.

The latest actuarial valuation for USS was at 31 March 2005 and for ERBS was 6 April 2006. The pension costs for both schemes are assessed using the projected unit method. The assumptions that have the most significant effect on the result of the valuations 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.

The assumptions and other data, which have the most significant effect on the determination of contribution levels, are as follows:

	USS	ERBS
Latest actuarial valuations	31 March 2005	6 April 2006
Investment return – past service per annum	4.5%	5.6%
Investment return – future service per annum	6.2%	5.6%
Pensionable salary increases per annum	3.9%	4.5%
Pension increases per annum	2.9%	3.0%
Price inflation per annum	2.9%	3.0%
Actuarial value of assets at date of last valuation	£21,740m	£63.4m
Value of past service liabilities	£28,308m	£84.0m
Proportion of members' accrued benefits covered by the actuarial value of the assets	77%	76%

NOTES TO THE ACCOUNTS

NOTE 31 PENSION SCHEMES *contd*

(i) 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. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. 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 Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. 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 separately identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The valuation was carried out using the projected unit method. The assumptions that 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. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c=2020) for all retired and Non-retired members

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

Males	19.8 years
Females	22.8 years

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

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

NOTE 31 PENSION SCHEMES contd

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (i.e. the valuation rate of interest). On the FRS17 basis, using a AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

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

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. 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 £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 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.

NOTES TO THE ACCOUNTS

NOTE 31 PENSION SCHEMES contd

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £7,641,000 (2007: £6,541,000). This includes £1,027,000 (2007: £864,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

(ii) University of Exeter Retirement Benefits Scheme (ERBS)

The latest actuarial valuation dated 5 April 2006 continued to show that the funds held by the Scheme were insufficient to meet anticipated future commitments. The University has set a target of 20 years from this date, to eliminate this deficit and has agreed to increase employer's contributions in order to fund the projected shortfall.

The principal assumptions used were in accordance with those used by independent qualified actuaries in updating the most recent reviews of the UK schemes for Financial Reporting Standard (FRS 17) purposes as follows:

	2008	2007	2006
	%	%	%
Rate of general long-term increase in salaries	4.8	4.8	4.6
Rate of increase in pension payments	3.8	3.3	3.1
Discount rate for scheme liabilities	6.6	5.8	5.1
Inflation assumption	3.8	3.3	3.1

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 20.0 years if they are male and for a further 22.1 years if they are female. For a member who retires in 2028 at age 65 the assumptions are that they will live on average for a further 21.8 years after retirement if they are male and a further 23.3 years after retirement if they are female.

The assets in the scheme and the expected rates of return together with the reconciliation of funded status to the balance sheet were as follows:

	31 July 2008		31 July 2007		31 July 2006	
	Long-term rate of return expected		Long-term rate of return expected		Long-term rate of return expected	
	% p.a.	£'000	%	£'000	%	£'000
Equities	7.9	41,744	8.0	48,578	7.5	43,380
Corporate bonds	5.9	5,245	–	–	–	–
Government bonds	4.9	15,888	5.0	15,737	4.5	16,300
Cash/Other	5.7	1,347	5.8	2,893	4.5	180
	<u>6.9</u>	<u>64,224</u>	<u>7.2</u>	<u>67,208</u>	<u>6.7</u>	<u>59,860</u>
Present value of scheme liabilities		(69,532)		(70,198)		(75,500)
Pension liability		<u>(5,308)</u>		<u>(2,990)</u>		<u>(15,640)</u>

NOTES TO THE ACCOUNTS

NOTE 31 PENSION SCHEMES *contd*

The University of Exeter employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Scheme at 31 July 2008.

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account

	2008	2007
	£'000	£'000
Current service cost	2,366	2,020
Past service cost	–	–
	2,366	2,020
Total operating charge	2,366	2,020

Analysis of the amount charged to the income and expenditure account

	2008	2007
	£'000	£'000
Within pension costs (note 7) – monthly contributions	2,630	2,380
Within pension costs (note 7) – FRS 17	(264)	(360)
	2,366	2,020
Total operating charge	2,366	2,020

Analysis of amount credited to other finance income

	2008	2007
	£'000	£'000
Expected return on pension scheme assets	4,819	4,014
Interest on pension scheme liabilities	(4,047)	(3,844)
	772	170
Net credit in accounts	772	170

Analysis of amounts recognised in the Statement of Recognised Gains and Losses (STRGL)

	2008	2007
	£'000	£'000
Total actuarial (losses)/gains	(3,354)	12,120
	(3,354)	12,120
Total (loss)/gain recognised in the STRGL	(3,354)	12,120
Cumulative amount of (losses) recognised in the STRGL	(19,118)	(15,764)

NOTES TO THE ACCOUNTS

NOTE 31 PENSION SCHEMES contd

Movement in the scheme deficit during the year

	2008 £'000	2007 £'000
Deficit on scheme at 1 August	(2,990)	(15,640)
Movements in the year:		
Current service cost	(2,366)	(2,020)
Contributions paid	2,630	2,380
Past services costs	–	–
Other finance expenditure	772	170
Actuarial gains/(losses)	(3,354)	12,120
Deficit on scheme at 31 July	<u>(5,308)</u>	<u>(2,990)</u>

Changes to the present value of the defined benefit obligation during the year

	2008 £'000	2007 £'000
Opening defined benefit obligation	70,198	75,501
Current service cost	2,366	2,020
Interest cost	4,047	3,844
Contributions by scheme participants	827	766
Actuarial (gains) on scheme liabilities*	(3,858)	(9,124)
Net benefits paid out	(4,048)	(2,809)
Closing defined benefit obligation	<u>69,532</u>	<u>70,198</u>
* Includes changes to the actuarial assumptions		

Changes to the fair value of scheme assets during the year

	2008 £'000	2007 £'000
Opening fair value of scheme assets	67,208	59,861
Expected return on scheme assets	4,819	4,014
Actuarial (losses)/gains on scheme assets	(7,212)	2,996
Contributions by the employer	2,630	2,380
Contributions by scheme participants	827	766
Net benefits paid out	(4,048)	(2,809)
Closing fair value of scheme assets	<u>64,224</u>	<u>67,208</u>

NOTES TO THE ACCOUNTS

NOTE 31 PENSION SCHEMES contd

Actual return on scheme assets

	2008 £'000	2007 £'000
Expected return on scheme assets	4,819	4,014
Actuarial (losses)/gains on scheme assets	(7,212)	2,996
Actual return on scheme assets	<u>(2,393)</u>	<u>7,010</u>

History of asset values, defined benefit obligation and deficit in the scheme

	2008 £'000	2007 £'000	2006 £'000
Fair value of scheme assets	64,224	67,208	59,860
Defined benefit obligation	(69,532)	(70,198)	(75,500)
Deficit in the scheme	<u>(5,308)</u>	<u>(2,990)</u>	<u>(15,640)</u>

History of experience gains and losses:

	2008	2007* Restated	2006* Restated	2005	2004
Difference between expected and actual return on scheme assets:					
– Amount (£m)	(7,212)	2,996	1,978	6,549	(342)
– % of scheme assets	(11.2%)	4.5%	3.3%	11.8%	(0.7%)
Experience gains/(losses) on scheme liabilities:					
– Amount (£m)	(997)	3,039	(2,347)	(789)	(228)
– % of the present value of scheme liabilities	(1.4%)	4.3%	(3.1%)	(1.0%)	(0.3%)
Total amount recognised in the statement of total recognised gains and losses:					
– Amount (£m)	(3,354)	12,120	(3,960)	(100)	(1,200)
– % of the present value of scheme liabilities	(4.8%)	17.3%	(5.2%)	(0.1%)	(1.9%)

* The University has elected not to restate amounts for 2005 and 2004 as permitted by the amendment to FRS17.

(iii) Total Pension Cost

The total pension cost for the University was:

	2008 £'000	2007 £'000
Contributions to USS – regular cost	7,641	6,541
Contributions to ERBS – current and past service cost	2,276	2,149
Contributions to other pension schemes	177	121
	<u>10,094</u>	<u>8,811</u>
Supplementary pension costs	12	12
Early retirement pension enhancement costs	332	41
Total pension cost	<u>10,438</u>	<u>8,864</u>

NOTES TO THE ACCOUNTS

NOTE 32 CAPITAL COMMITMENTS – Group and University

	2008 £'000	2007 £'000
Commitments contracted at 31 July	7,456	7,392
Authorised but not contracted at 31 July	57,692	14,405
	<u>65,148</u>	<u>21,797</u>

During the year expenditure was incurred on academic buildings, student accommodation, conference facilities and student amenity buildings.

NOTE 33 RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the University Council (with members 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 arm's length and in accordance with the University's financial regulations and normal procurement procedures, which require individuals to declare any interest.

The University undertakes transactions with Lacey Hickie & Caley Limited for architectural services. These transactions are conducted at arm's length and in the normal course of business. Mr Peter Lacey, a Pro-Chancellor of the University from 1 August 2007, is a non-executive director of Lacey Hickie & Caley Limited.

The University has taken advantage of the exemption under FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries that are at least 90% owned.

Tremough Campus Services

The University holds a 50% share of Tremough Campus Services (TCS), a company limited by guarantee, having no share capital and for which exempt charitable status has been obtained. TCS is a joint venture company owned equally by the University and University College Falmouth (UCF).

TCS has been established to operate student and commercial services for the Combined Universities in Cornwall campus at Tremough in Penryn under a combined services agreement and commenced trading in August 2004.

The University and UCF have continued to guarantee sums of £9.3m and £6.25m each to Lloyds TSB Bank Plc, in respect of the borrowings of £18.6m and £12.5m respectively to TCS.

Tremough Development Vehicle Limited (TDV) is a wholly owned subsidiary of TCS. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Tremough. TDV will continue to undertake academic related building works on behalf of the University and UCF. The University and UCF receive capital grants that are released to TDV to fund the academic development at the Tremough campus.

During the year TDV continued to contract for the design and construction of Phase 2 of the hub development for the Combined Universities in Cornwall initiative. TDV will contract the works with third parties and will recover funds from the University and UCF on the basis of an agreed split of costs and usage of space. This split has been set at 52.44% (Phase 1) and 45.48% (Phase 2) for the University and 47.56% (Phase 1) and 54.52% (Phase 2) for UCF. The TCS Group has capital commitments as follows:

NOTES TO THE ACCOUNTS

NOTE 33 RELATED PARTY TRANSACTIONS contd

	2008	2007
	£'000	£'000
Commitments contracted at 31 July	19,719	24,160
Authorised but not contracted at 31 July	20,900	728
	40,619	24,888

Amounts authorised are in respect of the building works for Phase 2 of the hub less commitments to date. Commitments then relate to the design, construction and fit-out for this work that had been awarded to contractors at the year end date.

Transactions between the University and TCS were as follows:

	2008	2007
	£'000	£'000
Income derived from the TCS Group	64	115
Expenditure incurred from the TCS Group	1,742	1,828
Payments by the TCS Group on behalf of the University	2,194	7,495

'Payments by TCS on behalf of the University' represents amounts paid to contractors for the University's share of the design and construction of Phases 1 and 2 at the Tremough campus.

The balances owing between the University and TCS at the year end were as follows:

	2008	2007
	£'000	£'000
Amount owing from University of Exeter to the TCS Group	405	1,100
Amount due to University of Exeter from the TCS Group	1,181	751

INTO University of Exeter LLP / Exeter ISC Limited

On 30 October 2006 the University formed the wholly owned subsidiary Exeter ISC Limited. Exeter ISC Limited has an issued share capital of 100 Ordinary £1 shares and 149,900 redeemable £1 preference shares.

Exeter ISC Limited holds a 50% share of INTO University of Exeter LLP, a limited liability partnership.

INTO University of Exeter LLP is a joint venture partnership with INTO University Partnerships Limited and the remaining 50% share is owned by INTO Exeter Limited, a wholly owned subsidiary of INTO University Partnerships Limited.

During the year the University recharged £2,048,000 (2007: £410,000) of operating costs to INTO University of Exeter LLP. This was in the normal course of business. At the year end INTO University of Exeter LLP owed the University £490,000 (2007: £328,000).

Also during the year ended 31 July 2007 the University entered into a loan agreement with Exeter ISC Limited. The agreement was to enable Exeter ISC Limited to borrow up to £350,000 from the University at an interest rate of 2.5% above the base lending rate of Barclays Bank Plc.

Exeter ISC Limited also had a second loan agreement to lend up to £350,000 to INTO University of Exeter LLP, again, at an interest rate of 2.5% above the base lending rate of Barclays Bank Plc.

NOTES TO THE ACCOUNTS

NOTE 33 RELATED PARTY TRANSACTIONS contd

The balances owing between Exeter ISC Limited and its related parties at the year end were as follows:

	2008	2007
	£	£
Amount owing from Exeter ISC to the University of Exeter	166,054	154,188
Amount due to Exeter ISC from INTO University of Exeter LLP	166,054	154,188

University of Exeter Students' Guild

In accordance with FRS 2, the activities of the University of Exeter Student's Guild have not been consolidated on the grounds that the University does not operate dominant influence over its activities. During the year ended 31 July 2008 the deficit on the Guild's activities was £135,000 (2007: £39,000 deficit) and its capital and reserves totalled £11,000 at this date (2007: £146,000).

Thomas Hall Estates Limited

The University has an arrangement with a local construction company to renovate and refurbish Thomas Hall. The nature of the arrangement is that a company, Thomas Hall Estates Limited, was established to carry out the required work and that each party would subscribe £1m each; the construction company in cash and the University by way of property insertion.

Two of the University's staff are directors of Thomas Hall Estates Limited.

At the balance sheet date planning permission had not yet been granted and, as stated in the agreement, if the project was aborted each party would be liable to 50% of the direct costs incurred to date by the company. As such the University has continued to accrue costs of £223,000 (2007: £133,000).

NOTE 34 POST BALANCE SHEET EVENTS

Included in cash at bank and in hand is a short term investment of £0.51m (50% of the total deposit of £1.02m) with the Icelandic bank, Landsbanki Islands hf. The deposit was placed by the University of Exeter on behalf of PCMD on 18 April 2008, in line with the University of Exeter's investment policy and per the terms of the PCMD Memorandum of Agreement that ensured that no more than £3 million was held in a single bank or £5 million in the case of UK clearing banks. At this date Landsbanki Islands hf had the appropriate short term credit rating with Fitch (F1) and Moodys (P1). It was due to mature on 20 October 2008.

On 7 October 2008 Landsbanki Islands hf issued a statement that it had gone into receivership and, like all other Icelandic banks taken into Icelandic Government control, all payments in and out of the bank were stopped. To date, there has been no movement of funds and this will not happen until the administrators / receivers have completed their work and are in position to fund payments or declare actual loss.

The Universities of Exeter and Plymouth will each bear 50% of any future loss that may arise.

NOTES TO THE ACCOUNTS

NOTE 35 ACCESS FUNDS

Summary of transactions for the year ended 31 July 2008

	2008	2007
	£'000	£'000
Balance unspent at 1 August	35	45
Funding Council grants	343	351
Interest earned	9	8
	387	404
Disbursed to students	(356)	(361)
Administration costs	(9)	(8)
	22	35
Balance unspent at 31 July	22	35

Funding Council 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 36 TDA INITIAL TEACHER TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2008

	2008	2007
	£'000	£'000
Balance brought forward at 1 August	77	146
TDA grants received	4,102	4,168
	4,179	4,314
Total TDA training bursary funding available for the year	4,179	4,314
Disbursements to students	(4,019)	(4,237)
	160	77
Funds to be recovered at 31 July	160	77

TDA training bursaries are available solely for students; the University acts only as paying agent. The training bursaries are therefore excluded from the Income and Expenditure Account.

NOTE 37 TDA BLACK AND MINORITY ETHNIC (BME) RECRUITMENT AND RETENTION

Summary of transactions for the year ended 31 July 2008

	2008	2007
	£'000	£'000
Balance at 1 August	–	2
BME funds received	3	2
	3	4
Total BME funding available for the year	3	4
BME recruitment and retention expenditure	(3)	(4)
	–	–
Balance at 31 July	–	–

NOTES TO THE ACCOUNTS

NOTE 38 TDA STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2008

	2008 £'000	2007 £'000
Balance at 1 August	665	655
Funds received	449	507
Disbursements to students	(394)	(497)
Balance at 31 July	<u>720</u>	<u>665</u>

NOTE 39 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY

INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2008

INCOME	Note	University of Exeter 2008 £'000	University of Plymouth 2008 £'000	Total 2008 £'000	Total 2007 £'000
Funding Council grants	iii	5,923	5,924	11,847	10,186
Tuition fees and education contracts		1,494	1,493	2,987	2,035
University research support		–	–	–	90
NHS funding	iv	3,280	3,280	6,560	4,544
Research grants and contracts		3,163	3,163	6,326	5,329
Other income	v	1,118	1,119	2,237	2,562
Endowment and investment income		425	424	849	492
Total income		<u>15,403</u>	<u>15,403</u>	<u>30,806</u>	<u>25,238</u>
EXPENDITURE					
Staff costs	vi	8,273	8,272	16,545	14,557
Other operating expenses		5,744	5,744	11,488	9,881
Depreciation	vii	123	123	246	255
Total expenditure		<u>14,140</u>	<u>14,139</u>	<u>28,279</u>	<u>24,693</u>
Surplus on continuing operations		<u>1,263</u>	<u>1,264</u>	<u>2,527</u>	<u>545</u>

NOTES TO THE ACCOUNTS

NOTE 39 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

BALANCE SHEET of the HE Community Chest as at 31 July 2008

	Note	2008 £'000	2007 £'000
Fixed assets			
Tangible assets	vii	1,447	583
Current assets			
Debtors	viii	5,281	5,162
Cash at bank and in hand	ix	19,449	9,833
		24,730	14,995
Creditors: amounts falling due within one year	x	(18,640)	(11,432)
		6,090	3,563
Net current assets		6,090	3,563
Total assets less current liabilities		7,537	4,146
NET ASSETS		7,537	4,146
Deferred capital grants		1,447	583
Reserves	xi	6,090	3,563
TOTAL		7,537	4,146

Explanatory notes

i. *Background*

The Peninsula College of Medicine and Dentistry (PCMD) is not a legal entity in its own right. It is a joint arrangement entered into in partnership by the University of Exeter and the University of Plymouth. PCMD, in turn, has partnership arrangements with three NHS Trusts (The Royal Devon and Exeter NHS Foundation Trust, Plymouth Hospitals NHS Trust and Royal Cornwall Hospitals Trust) and further arrangements with healthcare providers throughout the South West peninsula.

The Peninsula Dental School commenced activity in the year, with the first cohort of 62 students starting their studies in September 2007.

ii. *Audit arrangements*

A 50% share of the Income, Expenditure and Balance Sheet items of the Peninsula College of Medicine and Dentistry is included within the Income and Expenditure Account and Balance Sheet of each of the Universities. These transactions are part of the audited financial statements of each University for the year ended 31 July 2008.

NOTES TO THE ACCOUNTS

NOTE 39 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

iii. Funding Council grants

	2008 £'000	2007 £'000
Recurrent grant	11,394	9,504
Other specific grants	284	493
Deferred capital grants released in the year: Equipment	169	189
	<u>11,847</u>	<u>10,186</u>

iv. NHS funding

2008 £'000	2007 £'000
6,560	4,544
<u>6,560</u>	<u>4,544</u>

This funding was receivable to cover HE expenditure attributable to the NHS aspects of the Peninsula College of Medicine and Dentistry.

v. Other income

	2008 £'000	2007 £'000
Other grant income	659	686
Other income	1,578	1,876
	<u>2,237</u>	<u>2,562</u>

vi. Staff numbers

The average number of persons (including senior post-holders) employed on behalf of PCMD by either the University of Exeter and the University of Plymouth during the year, expressed as full-time equivalents, was:

	Year Ended 31 July 2008	Year Ended 31 July 2007 Restated
	Number	Number
Academic staff	100	83
Research staff	90	76
Teaching fellows (formerly tutors)	46	35
Support staff	122	105
Total	<u>358</u>	<u>299</u>

The above staff numbers are split equally between the two Universities and included in their staff number disclosures.

NOTES TO THE ACCOUNTS

NOTE 39 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY *contd*

vii. *Fixed assets*

Equipment costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its useful life as follows:

Computer equipment and IT Infrastructure	4 to 8 years
Equipment acquired for specific research projects	project life (generally 3 years)
Other equipment	8 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 life of the equipment. The equipment capitalised in this statement is solely acquired with funding made available from the HE Community Chest and the equipment is jointly owned by the two Universities. The principal items are for telematics.

viii. *Debtors*

	2008	2007
	£'000	£'000
Debtors	1,113	1,369
Prepayments and accrued income	1,746	3,793
Due from partner university	545	–
Due from NHS partners	1,877	–
	<hr/>	<hr/>
	5,281	5,162
	<hr/>	<hr/>

ix. *Cash at bank and in hand*

	2008	2007
	£'000	£'000
Held by:		
University of Exeter	16,156	8,182
University of Plymouth	3,025	1,650
University of Plymouth – PCMD	268	1
	<hr/>	<hr/>
	19,449	9,833
	<hr/>	<hr/>

These balances are held under the agreed management arrangements. The University of Plymouth Peninsula College of Medicine and Dentistry account facilitates payments to suppliers whilst the balances held by the University of Exeter and the University of Plymouth are held in short-term deposits.

NOTES TO THE ACCOUNTS

NOTE 39 PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

x. *Creditors: amounts falling due within one year*

	2008	2007
	£'000	£'000
Bank overdraft	–	5
Trade creditors	112	35
Other creditors	57	85
Due to partner universities	319	2,145
Deferred income:		
HEFCE Recurrent Teaching Grant	3,659	3,659
HEFCE Capital funding	435	–
HEFCE Dental start-up funding	1,767	–
NHS Capital funding	1,360	124
NHS Dental start-up funding	1,909	834
NHS SIFT	3,657	–
Accruals and other deferred income	5,365	4,545
	<u>18,640</u>	<u>11,432</u>

xi. *Reserves*

	2008	2007
	£'000	£'000
Opening balance	3,563	3,018
Surplus for the year	2,527	545
Closing balance	<u>6,090</u>	<u>3,563</u>

xii. *Post balance sheet events*

Included in cash at bank and in hand is a short term investment of £1.02m with the Icelandic bank, Landsbanki Islands hf. The deposit was placed by the University of Exeter on behalf of PCMD on 18 April 2008, in line with the University of Exeter's investment policy and per the terms of the PCMD Memorandum of Agreement that ensured that no more than £3 million was held in a single bank or £5 million in the case of UK clearing banks. At this date Landsbanki Islands hf had the appropriate short term credit rating with Fitch (F1) and Moodys (P1). It was due to mature on 20 October 2008.

On 7 October 2008 Landsbanki Islands hf issued a statement that it had gone into receivership and, like all other Icelandic banks taken into Icelandic Government control, all payments in and out of the bank were stopped. To date, there has been no movement of funds and this will not happen until the administrators / receivers have completed their work and are in position to fund payments or declare actual loss.

The Universities of Exeter and Plymouth will each bear 50% of any future loss that may arise.

FIVE YEAR SUMMARY ACCOUNTS

INCOME AND EXPENDITURE

	2007/08	2006/07	2005/06	2004/05	2003/04
	£'000	Restated £'000	£'000	£'000	£'000
Income					
Funding body grants	63,544	57,898	52,673	48,848	44,242
Tuition fees & education contracts	45,507	35,179	29,712	27,795	25,147
Research grants & contracts	24,497	20,100	16,494	15,293	13,808
Other income	40,205	36,142	36,824	35,987	31,466
Endowment & investment income	4,216	3,336	1,899	1,044	907
Other financial income	772	170	–	–	–
Total income	178,741	152,825	137,602	128,967	115,570
Expenditure					
Staff costs	100,480	90,082	79,066	77,711	71,583
Other operating expenses	58,460	50,423	45,034	43,153	39,207
Depreciation	11,594	10,054	7,535	6,904	5,640
Interest payable	4,930	4,944	4,399	3,333	1,589
Other financial expenditure	–	–	100	400	–
Total expenditure	175,464	155,503	136,134	131,501	118,019
Operating surplus/(deficit)	3,277	(2,678)	1,468	(2,534)	(2,449)
Share of operating loss in JV	(866)	(817)	(318)	(150)	–
Exceptional items	(5,579)	3,188	(2,351)	(9,994)	(2,654)
Transfer (to) / from endowments	206	37	–	–	–
(Deficit)/Surplus for the year	(2,962)	(270)	(1,201)	(12,678)	(5,103)
Historical cost adjustments	4,999	6,373	4,913	6,125	2,175
Historical cost surplus/(deficit) for the year	2,037	6,103	3,712	(6,553)	(2,928)

FIVE YEAR SUMMARY ACCOUNTS

BALANCE SHEET

	2007/08	2006/07	2005/06	2004/05	2003/04
	£'000	Restated £'000	£'000	£'000	£'000
Fixed assets	449,370	457,408	432,267	235,748	227,411
Endowment asset investments	15,974	18,534	16,645	13,551	10,585
Net current assets	20,791	20,940	15,939	6,665	536
Creditors: amounts falling due after more than one year	(83,180)	(77,871)	(76,796)	(62,626)	(47,482)
	402,955	419,011	388,055	193,338	191,050
Provisions for liabilities	(893)	(1,899)	–	–	–
Pension liability	(5,308)	(2,990)	(15,640)	(13,100)	(11,300)
Total net assets	396,754	414,122	372,415	180,238	179,750
Represented by:					
Deferred capital grants	93,213	85,558	64,319	57,826	48,078
Endowment reserve	15,974	18,534	16,645	13,551	10,585
Revaluation reserve	250,217	271,376	275,389	93,271	98,843
Income and expenditure reserve	37,350	38,654	16,062	15,590	22,244
Total funds	396,754	414,122	372,415	180,238	179,750

FINANCIAL STATISTICS

	2007/08	2006/07 Restated	2005/06	2004/05	2003/04
	%	%	%	%	%
Sources of income (% of income)					
Funding body grants	35.6	37.9	38.3	37.9	38.2
Tuition fees – Home and EU	17.3	15.2	12.3	12.2	12.3
Tuition fees – Overseas and other	8.2	7.8	9.3	9.3	9.5
Research grants & contracts	13.7	13.2	12.0	11.9	11.9
Residences, catering and conferences	11.9	13.6	15.2	15.8	17.3
Other income	10.6	10.0	11.5	12.1	10.0
Endowment & investment income	2.4	2.2	1.4	0.8	0.8
Other financial income	0.3	0.1	–	–	–
Total income	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Analysis of expenditure (% of expenditure)					
Staff costs	57.3	57.9	58.1	59.1	60.7
Other operating expenses	33.3	32.4	33.1	32.8	33.2
Depreciation	6.6	6.5	5.5	5.3	4.8
Interest payable	2.8	3.2	3.2	2.5	1.3
Other financial expenditure	–	–	0.1	0.3	–
Total expenditure	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
Operating surplus/(deficit) as a % of total income					
	1.8	(1.8)	1.1	(2.0)	(2.1)
Indicators of financial strength					
Days ratio of available funds* to total expenditure**	45.8	60.3	42.9	30.7	54.3
<i>The number of days expenditure that could be sustained from available funds</i>					
Ratio of long term liabilities* to total net assets	21.0	18.8	20.6	34.7	26.4
<i>Measures the extent to which an institution is funded by long term debt</i>					
Indicators of liquidity and solvency					
Ratio of liquid assets to current liabilities	0.95	0.75	0.64	0.61	0.40
<i>Extent to which current liabilities could be met from cash and liquid investments</i>					
Days ratio of liquid assets to total expenditure**	98.4	73.5	64.6	52.0	35.3
<i>Days that total expenditure could be met from cash and liquid investments</i>					
Ratio of current assets to current liabilities	1.45	1.54	1.45	1.23	1.02
<i>Extent to which current liabilities could be met from current assets</i>					
Days of total income*** represented by debtors	45.9	51.1	47.3	38.5	51.0
<i>Days of total income (excluding Funding body grants) represented by debtors</i>					
* Excluding FRS17 pension liability/reserve					
** Excluding depreciation and FRS17 expenditure					
*** Excluding FRS17 income					

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