UNIVERSITY OF EXETER

Financial Statements 2009/10

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Designed and typeset by the Design and Publications Office

Printed by XXXXXXXX

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PERFORMANCE OVERVIEW

The higher education sector has seen some dramatic announcements in the last 15 months with the expectation of more to come as the consequences of the Comprehensive Spending and the Lord Browne reviews (plus Government amendments) are digested. Great care has been taken on interpreting the announcements and extensive modelling of the impacts on the University has been undertaken. We are reassured that the financial trajectory of the University over the past few years is consistent with what is now unfolding. The University has developed financial self-reliance in our academic activities, diversified income streams, grown overall capacity for research and educational activities and generated additional earnings separate from those provided by the Higher Education Funding Council (the Funding Council).

These initiatives have continued apace in 2009/10 to increase the financial resilience of the University. University modelling indicates that more work is required in several areas to ensure that the University is as prepared as it can be for the new market world, for example the £10 million creating value exercise completed in 2009/10. Many of the key preparations for the new market world came to fruition during the year. For example the Infrastructure Strategy became fully committed and on site for full delivery in the summer of 2012. The academic management of the University has been devolved into six Colleges and all academic units now generate surpluses.

The University monitoring of performance in 2009/10 is consistent with that used in previous years. Performance is assessed against a standard set of key non financial performance indicators. These key indicators divide into three themes:

- **Developing the University's research mission** – The University has taken the opportunity provided by the successful 2008 Research Assessment Exercise to reinvest further in the University's research mission. Over the next three years an additional £3 million per annum is being invested in research development. This is on top of the cumulative £9 million invested previously in the University's Science Strategy. As with last year a key target is to grow research income, even in these straitened times. The University grew research income from £33 million to £38 million in 2009/10. Postgraduate research students per member of staff, another key University research target, increased from 1.8 per academic staff member to 2.1 in the year.
- **Developing the University's education mission** – The University maintained its achievement of always being in the top ten of the National Student Survey in comparison to other "full service" universities. Especially pleasing has been the growing quality of students attracted to the University. Even with over 7 applications for every place in 2009/10, the student entry tariff increased from 408 to 434. The University continues to focus much effort on improving its employability performance and is pleased to note that despite the recessionary conditions University student employability rates improved in the year to 70.3%, up from 66.8% the year before. However, this achievement is still unsatisfactory. The University intends to continue to invest in student employability and will embed this within the £48 million Forum development which is currently under construction. The University has continued with excellent performances in student progression and academic attainment.
- **Developing the financial sustainability of the University** – The University has continued its strategic goal of enhancing its financial sustainability through the diversification of revenues and reducing its reliance on funding from the Funding Council. Recent Government announcements on reducing the funding for the higher education sector reveals the importance of this long held University goal. In 2009/10 reliance on Funding Council revenues fell from 33% of total revenues to 31%. In absolute terms, Funding Council grants have increased with an additional £4 million in 2009/10 due to the successful 2008 Research Assessment Exercise outcome for the University. The growth of non Funding Council income in 2009/10 exceeds this with an extra £20 million of income, of which £14 million is additional tuition fee revenues.

The University is aware that the new funding environment could put strains on even the financially strong universities. To counter this the University set out to improve it's operating performance by £10 million through a Creating Value initiative. This Creating Value initiative achieved its substantive goal in 2009/10 with the improved £10 million performance budgeted in 2010/11.

Other key successes of the University this year include:

- Gaining recognition as a World top 200 University, a key milestone in the University's target of being top 100 in the World by 2015.
- Consolidating the academic activity of the University from ten schools into six Colleges, including the Peninsula College of Medicine and Dentistry.
- Finalisation of the contract with the University Partnerships Programme Limited (UPP) in November 2009 to deliver an additional 1,948 student residential bed spaces by 2012 at a cost of £133 million.
- In addition the £46 million contract with INTO University Partnerships Limited was finalised in October 2009 to deliver a further 517 student bed spaces by the summer of 2011 and an academic facility of some 2,865 square meters.
- Full on-site commencement of the Infrastructure Strategy took place in 2009/10. This is principally aimed at improving the student experience on the University's campuses in advance of increased graduate contributions and creating the University of Exeter as a destination university. It is bringing over £300 million of new capital investment and will complete in the summer of 2012.
- Achieving European Commission funding for the £30 million Environment and Sustainability Institute, Wellcome-Wolfson funding for the £19 million Centre for Translational Medicine and further Wellcome funding for the £4 million Wellcome Mood Disorder Centre.

The University has also experienced the challenges of growth in the year. A £2.6 million historic cost impairment is recognised in the accounts for one of the infrastructure projects currently under construction. In addition, an element of the University admissions processes operated ineffectively in the summer of 2009 causing significant difficulties for 400 students and their families; all the affected students were offered places at the University. A further 6,800 students were admitted without delays or problems. It is reassuring to note that in the 2010 admissions process this issue has not recurred with the issues in 2009 now resolved.

Throughout the year, the University has remained vigilant in respect of the scale of Government funding cuts. To ensure that the University can progress its investment plans, extensive scenario and contingency planning has been undertaken. This planning indicates that the University remains financially strong. It is clear that the maintenance of this level of vigilance continues to be required in relation to the impacts of the Comprehensive Spending Review and the compensatory delivery of the outcomes of the Lord Browne Review.

The University is pressing ahead with its plans to increase academic staff numbers and to deliver improved research and student experience infrastructure. The implicit University trajectory for many years has been the expectation of reduced Government funding and increased self-reliance. Investment over the past years has prepared the University for this eventuality. Continued investment and flexibility in the delivery of the student experience will allow the University to excel in this new environment.

FINANCIAL OVERVIEW

During the year, the University has remained on its key track of expanding its educational and research capacity and diversifying its revenue streams from Funding Council income. Key financial priorities in the year have been to:

- Grow earnings from educational activities.
- Grow research income on a sustainable basis.
- Manage the financial impacts of the infrastructure developments.
- Deliver the Creating Value initiative targeted at improving the University's financial performance by £10 million annually.
- Monitor closely the potential impacts of the Comprehensive Spending Review and the Lord Browne Review.

In monitoring the performance of the University, the Council of the University and the Funding Council use the historic cost basis of accounting. This is used by the Funding Council to assess all universities' financial performance. For the year to 31 July 2010 the consolidated historic cost result for the University reported in these financial statements is:

	2010 £m	**2009 £m**	**2008 £m**	**2007 £m**
Funding Council income	71.6	67.7	63.5	57.9
Other income	155.6	135.5	115.2	94.9
Total income	227.2	203.2	178.7	152.8
Expenditure	(219.6)	(195.6)	(170.9)	(151.2)
Share of joint venture operating results	0.8	0.2	(0.9)	(0.8)
	8.4	7.8	6.9	0.8
Exceptional items	10.9	0.5	(5.1)	5.3
Transfer from Endowment Funds	0.3	0.4	0.2	–
Historical cost surplus for the year	19.6	8.7	2.0	6.1

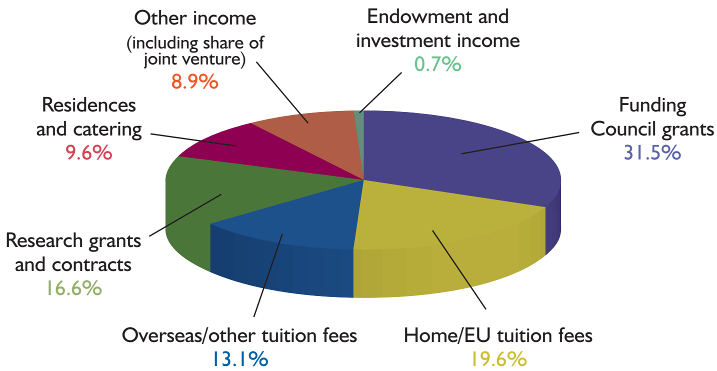
The historic cost operating surplus of the University before exceptional items has continued to grow, representing 3.7% of University's total income. The operating surplus is reported after a £2.6 million historic cost impairment of an asset in the course of construction. Ignoring this non-recurrent item increases the operational surplus to some 4.8% of total income.

INCOME

The financial statements report a 12% growth in the University's group income to £227.2 million. Earned income has grown by 15% in the year, so reducing the proportion of income the University receives from the Funding Council to 31% from 33% in 2008/09. Even though less reliance is placed on Funding Council income, it has still grown by 6% in the year to £71.6 million.

The most significant increase in earned income is in relation to tuition fees and educational contracts that have risen by £14.2 million, an increase of 24% in the year. Increased international student numbers account for £9.0 million of this with the remainder coming from Home and EU students. As predicted in the University's International Strategy and through the joint venture, INTO University of Exeter LLP, international student numbers continue to grow. This is helped by the University continuing to forge new links abroad, most notably in China and India.

NET INCOME (excluding exceptional income)



Research income grew by £7.7 million in the year. Of this, £3.3 million arises from increased research related funding from the Funding Council and £4.4 million from research contracts. The Funding Council income growth is largely due to the successful outcome for the University of the 2008 Research Assessment Exercise. Income from non-Funding Council research grants and contracts has grown in line with overall group income and represents some 16.6% of total income. The absolute growth in this area remains impressive – considerably more than doubling to £37.7 million since 2005/06 when this stream of income contributed £16.5 million to the University.

Research grant and contract income is also benefitting from the continued investment in the University's Science Strategy. The first element of the overall £9 million investment was committed in 2009/10 and it is predicted that this continued investment will grow this source of income further.

Other income increased in the year by £4.2 million (8.4%). This increase is primarily due to an increase in income relating to the joint ventures with INTO University of Exeter LLP (£1.8 million) and Tremough Campus Services (£0.8 million). Income from other external grants also rose by £1.5 million primarily due to increased Peninsula College of Medicine and Dentistry activity in Truro.

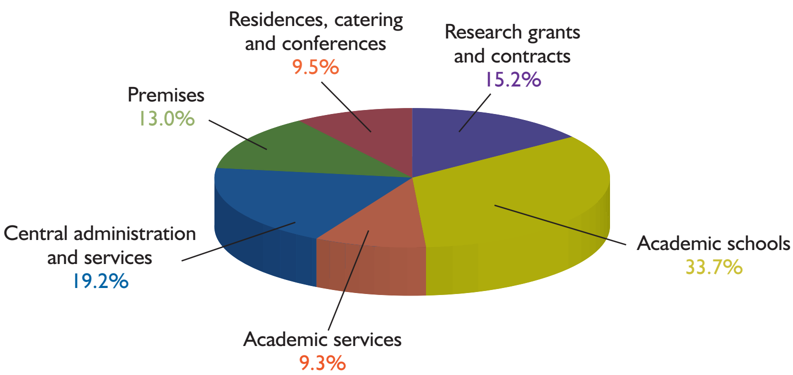
Endowment and investment income remained relatively static falling by £0.1 million to £1.6 million. This reflects the underlying low interest rates available for short term investments for the whole of 2009/10 decreasing yields by £0.9 million. This is being partially offset by a favourable movement of £0.6 million on the disposal of fixed asset investments.

EXPENDITURE

A target was set by the University in January 2009 to improve the underlying operating performance of the University by £10 million by 2010/11. A Creating Value initiative was undertaken in 2009/10 to identify and secure these improvements. This exercise has now concluded with some £9.1 million of savings achieved in 2009/10 and a further £0.9 million identified in 2010/11 bringing the total improvement to the targeted £10 million.

The total expenditure of the University has increased by £24.0 million on a historic cost basis, as with income, a 12% increase. Of the increase £6.8 million is due to staff costs reflecting a full years cost of the additional research focussed academic staff, many related to the Science Strategy, that were recruited during the prior year together with the full years increased employer contribution to the Universities Superannuation Scheme (£1.7 million).

EXPENDITURE (excluding exceptional expenditure)



The University achieved the targeted Creating Value savings in advance of reduced Funding Council grants. Unchecked this would have increased the University's surplus beyond its current historic high. As a consequence the opportunity has been taken to commit to additional non-recurrent expenditure on equipment and maintenance. Overall, equipment and maintenance costs are some £6.2 million higher than last year and as a result other expenditure has increased by £13.9 million.

Expenditure on residences, catering and conferences has increased by £3.0 million due mainly to non-recurrent expenditure relating to the non-recurrent maintenance. It was essential that this maintenance was undertaken to ensure the student experience continued to be reflective of a Top 200 Worldwide University. In addition to this, student support expenditure has also increased by £3.4 million (22.4%) in line with the increase in tuition fees charged.

Depeciation decreased by £1.0 million due mainly to the downward revaluation of buildings as at July 2009 taking effect together with the disposal of student residences at the start of year as part of the UPP transaction (as outlined below). Offetting this lower depreciation charge was a £2.6 million one off impairment of an asset in the course of construction.

EXCEPTIONAL ITEMS

The exceptional item noted in the accounts relates to a transaction with UPP in November 2009. This transaction leased land and 980 existing student bed spaces for 43 years to UPP. UPP will demolish 359 student bed spaces and build a further 1,948 new bed spaces. The student demand risk for this project resides with UPP. At the end of 43 years the leased property reverts to the University, the value of which at that time is expected to be negligible. Overall, the University received a lease premium of £13.8 million for this £133 million project. £10.9 million has been recognised as an historic cost surplus in respect of this and other property disposals.

CASH FLOW

The University has generated some £14.6 million of operating cash in the year which contributes to an overall increase in cash in the year of £7.7 million. The main outflow is £8.8 million of capital expenditure and financial investment. This £8.8 million comprises a gross expenditure of £39.1 million on the University's infrastructure strategy offset by capital grant funding of £11.8 million and receipts from the disposal of assets of £17.6 million. The balance is the movement in long term investments and endowments.

A further £4.8 million was required to pay the University's interest on its bank debts, this was marginally offset by interest received on short term investments of £0.6 million.

Overall, the University's net debt position improved in the year by £1.5 million to £37.8 million. Given the level of infrastructure investment currently underway, it is pleasing to be able to report this reduction in net debt.

Infrastructure projects with a value of £294.5 million are now on site and under construction. The University closely monitors the cash required to resource these projects through monthly cash flow monitoring and three year cash requirement forecasting. This three year period will see the conclusion of all the infrastructure projects. The forecasting indicates the capacity of the University to deliver the projects whilst complying with all the Funding Council financial memorandum requirements and the University's bank covenants. In addition to the infrastructure investments, the University's forecasts identify further resources for additional investment to develop research themes, the student experience, student staff ratios and to continue to enhance internationalisation at the University.

BALANCE SHEET

The University's net assets have increased by £21.8 million in the year of which £6.1 million is as a result of the surplus generated. The income and expenditure reserve increase is larger at £26.8 million, of which £13.5 million is due mainly to the UPP asset disposal crystallising gains previously recognised in the revaluation reserve. A further £7.1 million is due to an improvement in the Exeter Retirement Benefits Scheme (ERBS) pension deficit largely as a consequence of the Government's decision to rebase pension increases each year from the Retail Prices Index to the Consumers Prices Index. Overall, net assets are rising as the:

- University is making a surplus, so generating more income than it is consuming.
- University is reinvesting its operating cash surpluses in assets rather than revenue expenditure.
- Government changed the pension increase index.

During the year the University has constructed £41.3 million of tangible fixed assets. This included the ongoing refurbishment of the Biosciences Geoffrey Pope building (£13.7m), the extension to the Business School (£6.5m), further investment at our campus in Cornwall (£2.2m), continued improvement of the IT infrastructure (£1.6m) and the start of the Forum project (£9.1m) – an exciting new development for the heart of Streatham Campus creating an inspirational mix of outside and inside space.

Fixed asset investments increased by £1.5 million to £11.0 million due to the improved results within the University's joint ventures and favourable market value movements of quoted stocks held. This latter reason was also the main cause for endowment asset investments to increase by £3.0 million to £21.1 million.

Net current assets increased in the year by £5.5 million to £28.0 million due to an increase in debtors of £8.5 million offset by an increase in creditors due within one year of £4.2 million – the balance being the movement in cash and cash deposit balances. The increase in debtors and creditors falling due within one year is reflective of the increase in research income and the amounts due from research funding bodies especially within the Peninsula College of Medicine and Dentistry. Added to this is the reclassification from current asset investments to debtors of the Landsbanki Islands hf £2.0 million deposit. This is still expected to be recovered but beyond the current financial period.

Creditors due after more than one year increased by £2.8 million to £95.8 million due to the inclusion of the deferred INTO lease premium. This will be released over the term of the ground lease of the INTO buildings. Due to the capital repayment holiday, bank debt remained constant at £92.7 million.

KEY FINANCIAL PERFORMANCE INDICATORS

The University regularly monitors its financial strength against six key financial performance indicators:

Key financial performance indicator	Actual as at 31 July 2010	Early warning trigger	Maximum / minimum level
Payroll costs as a percentage of total income	52%	60%	62%
Cash and near cash	£54.7 million	£15.0 million	£15.0 million
Current ratio (including undrawn loan facility)	2.7	1.2	1.0
Net liquidity days	96	50	40
Loans as a percentage of total income	41%	60%	65%
Compliance with bank covenants	Full compliance	Full compliance	Full compliance

The University is operating well within the key financial indicators and has the capacity to continue investing. The University is currently revising its Finance Strategy to take account of the emerging market environment. It is likely that the above parameters will change in this process. A possibility exists that additional key financial performance indicators will be identified and some existing ones amended. However, it is clear that the University is well positioned to compete successfully in a market environment and to continue to invest to secure and improve its leading position.

JEREMY LINDLEY
DIRECTOR OF FINANCE AND DEPUTY REGISTRAR

24 November 2010

PUBLIC BENEFIT STATEMENT

The University of Exeter's mission is to help shape the future by extending the boundaries of knowledge for the benefit of individuals, society and the environment. Our vision is to be a leading international university, recognised for the high quality of research and the distinctive student experience we offer. Council confirm that they are aware of their duties with regard to public benefit and are conversant with the Charity Commission guidance in this area. In setting objectives and planning future activities, Council have had regard to the Charity Commission guidance on public benefit.

Our key characteristics:

- research intensive, recognised internationally for its excellence;
- offering challenging programmes at all levels of study, highly attractive to students from varied backgrounds;
- providing an outstanding student experience which prepares students for meaningful employment and a fulfilling life;
- offering a high-quality, campus-based living and learning environment which is welcoming and inclusive;
- committed to making a positive, distinctive and measurable impact on society, and playing a leading role in the South west region;
- an international university, in outlook and impact.

SPECIFIC ACHIEVEMENTS FOR 2009/10

The University delivers public benefit in a wide variety of ways, but principally through its teaching, its research and its contribution to the economy.

TEACHING

The effect of a University education on students is transformational, particularly on those from poorer backgrounds. The University has a student-focused philosophy which results in very high levels of student satisfaction: Exeter is a consistent top 10 performer in the National Student Survey.

Exeter has a long history of working at the leading edge of widening participation and fair access policy. For more than a decade the University has pioneered widening participation activity, leading the development of the Aimhigher programme in the South West, hosting residential summer schools and participating in innovative new outreach programmes.

In 2009/10 the University set aside £4.5 million - nearly a quarter of its additional fee income - to fund outreach activities and means-tested bursaries for undergraduate students from poorer backgrounds. This provision represented 6% of gross tuition fee income and over 13% of Home/EU undergraduate fee income. Bursaries are publicised and paid at £1,500 pa for students with a household income below £25,000 and £750 pa for students with a household income between £25,001 and £35,000. A further £1,500 pa is available for eligible undergraduate students from the south-west region. A total of 3,298 students received means tested support in 2009/10, representing 32% of Home/EU undergraduate students.

Outreach activity sees Exeter students going out to schools to help raise the aspirations of students from lower socio-economic groups and to mentor them. The University is also engaged in two innovative widening participation schemes with partners:

- Realising Opportunities is a national pilot involving 12 research-intensive universities who have agreed to operate a national 'compact'. A compact scheme ensures that progression to a partner university is encouraged by making offers to participating students below the normal entry requirements (provided a student completes the programme). Only students from disadvantaged backgrounds are invited to participate in the programme and in order to be eligible, students have to be academically able, have achieved a specified level of GCSE attainment, come from the public care system and/or satisfy certain income criteria. Often, outreach is conducted locally and then students choose to apply for higher education study in another part of the country entirely.

- Sutton Trust Academic Routes (STAR) takes a different approach and aims to identify bright young students from disadvantaged backgrounds at an earlier age and then offer them guaranteed entry to the University of Exeter, provided they meet certain academic and project-specific conditions along the way. Eligibility for the STAR programme is dependent on academic ability, being on track for a specified level of GCSE attainment, coming from the public care system and/or living in a postcode identified as having high levels of deprivation. The STAR programme involves 60 students from 8 local schools and works with students pre-GCSE in Year 11 through to their application to university in Year 13.

The University also uses contextual data in its admissions policy. A growing body of evidence suggests that students from poorly performing schools achieve better degree results than similarly-qualified peers from high performing schools. Such contextual data is employed by the University to identify a cohort of students with potential to succeed – although their qualifications on entry might be slightly lower than others. Applicants are therefore considered for offers at one grade below the norm (although still within published boundaries), with the expectation that they will close or overcome the achievement gap during their time at the University.

The University of Exeter is well placed to build on its history of widening participation activity and relishes the opportunities afforded by the Browne Review of HE funding to further increase its activities in this area. The University recognises its role as a vehicle of social mobility and will seek to ensure that fair access is guaranteed to all applicants, regardless of background, in collaboration with local, regional and national partners.

RESEARCH

The University seeks to undertake research which has a distinctive and measurable impact on society. There is a focus on translational research so that discoveries are used for the benefit of society. Working with business and other funders of research is fundamental to this approach. The University has recently trebled the size of its on-campus Innovation Centre, which provides business units for small high tech companies, and is working with a range of partners to establish the city of Exeter's first science park.

Exeter researchers are making major contributions to our understanding of diabetes, creating new ways of testing for malaria, combating the world's biggest killer of rice crops, discovering genes responsible for height and obesity, measuring the impact of workspace design on workers' health, assessing the effects of nitrates on athletes' stamina, promoting the benefits of exercise in combating nicotine addiction, identifying the link between vitamin D deficiency and cognitive decline in the elderly, finding links between a stain repellent chemical and possible thyroid problems, and measuring the effects of endocrine-disrupting chemicals found in rivers.

The University is in the midst of a five year research investment plan worth £100 million. The vast majority of this funding is directed at expanding science activities and includes new facilities and equipment, an increase in staffing plus extra earned income from research grants and contracts.

ECONOMIC AND SOCIAL BENEFIT

The University will deliver more than £400 million worth of value to the UK economy this year. This has risen by over £150 million since 2002 and is forecast to reach nearly £500 million by 2012. Year-on-year the University has decreased its dependence on UK government funding and now takes less than 32 per cent of its income from the state. Strong financial performance and partnership with the private sector has allowed the University to deliver an investment programme of over £300 million, including new facilities for Biosciences and the Business School plus a major redevelopment of the heart of the Streatham Campus called the Forum Project. Overall the University supports more than 5,000 jobs and is looking to recruit a further 100 academic staff this year at a time when many of its competitors are cutting back. Around 1,000 contractors are currently employed on site, providing a much-needed boost for the construction sector at a time of economic uncertainty.

In 2010 student numbers grew to 17,200 including a 42 per cent rise in international admissions which reflects the University's International Strategy and the strong performance in INTO University of Exeter LLP. Since 2002 overall student numbers have risen by nearly 50 per cent. Students are active in their local communities providing more than 100,000 hours of volunteering a year which is aimed at helping local elderly and disabled people. The University and the Students Guild work hard to integrate students into the local community through the use of special community wardens, residents' liaison groups and educational programmes around issues such as late night noise and refuse collection.

Exeter is making rapid progress up the UK and international university rankings. In the Times Good University Guide, Exeter moved from 34th position in the UK in 2005 to 12th in 2010. The University's aim is to achieve a sustainable top 10 position by 2012. For the first time this year, Exeter was rated as one of the top 200 institutions in the world. The Times Higher Education international league table ranked the University in 184th position, making it one of the top one per cent of universities in the world. Exeter's target is to make it into the top 100 by 2015.

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. It also fully complies with the code for governance as set out in this guidance.

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.

The University is also an exempt charity within the meaning of the Charities Act 2006.

MANAGEMENT

The Charter and Statutes require the University to have two 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.

In addition to the above two bodies, Council has an Audit Committee and a Remuneration Committee. The University is required to maintain an Audit Committee 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** – and its chair are appointed by Council and consist of members with no executive responsibility for the management of the University. The Committee is authorised to investigate any activity within its Terms of Reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

  The Committee is authorised to obtain outside legal or other independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary, normally in consultation with the Vice-Chancellor and/or Chair of Council.

  The Committee considers detailed reports from the University's external and internal 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. The Committee takes into account the internal auditors' statement on internal control in forming its own opinion.

  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 Remuneration Committee** – is responsible for setting the remuneration of all senior staff including the Vice Chancellors Executive Group (VCEG), Deans of Colleges, Professors and senior staff within the Professional Services. The Committee is comprised of five lay governors and is chaired by the Chair of Council. The Vice-Chancellor and the Senior Deputy Vice-Chancellor attend meetings but no member of staff is present for the discussion of their own remuneration.

  There are two meetings of the Remuneration Committee within each calendar year: the first meeting (which takes place just before the financial year commences) agrees performance targets for VCEG and reviews remuneration strategy and comparative market data; the second meeting (which is held after the year end) reviews performance against the previous year's targets, decides on salaries and the level of awards to be made and agrees a statement for inclusion in the Annual Report of the University.

  Professors are invited to submit a statement describing their achievements over the previous twelve months. Statements are reviewed by their Dean, the Deputy Vice Chancellor responsible for the College and the Director of Human Resources who jointly produce a draft salary plan to reflect the strategy agreed by Remuneration Committee. Plans are then considered by VCEG which is responsible for ensuring consistency and equality of treatment in the review process. The finalised Professorial Salary Plan is presented for approval to the second meeting of the Remuneration Committee. In parallel to this process the Registrar and Deputy Chief Executive develops a draft salary plan for senior professional staff. The plan reflects individuals' performance as assessed through the appraisal process and takes account of comparative market data. The plan, following consultation with the Deputy Vice-Chancellors, is discussed with the Vice Chancellor before it too is presented to the second meeting of the Remuneration Committee for approval. Remuneration Committee considers recommendations from the Vice-Chancellor and makes decisions on the salaries of VCEG members before finally, in closed session and informed by the findings of the annual Committee of University Chairmen (CUC) Survey of Vice-Chancellors' Remuneration, the Lay Members of Remuneration Committee decide the salary of the Vice-Chancellor. These decisions are then summarised in a statement which appears in the Annual Report of the University.

  The base salaries for the reported year are set towards the beginning of the year, (in this report for 2009/10 in the autumn of 2009) and reflect market circumstances applying at that time. The variable performance awards are set only after the year is finished and when financial results are available, allowing for a full appraisal of performance during the preceding financial year.

  Remuneration Committee takes great care to ensure that it complies with the HEFCE Accounts Direction on senior staff salaries. For example the Vice-Chancellor's base salary is positioned against the median salaries of Vice-Chancellors of a Comparator Group of Universities whose performance on Key Performance Indicators is used by the University to measure its own progress. The aim of the Committee is to position the Vice-Chancellor's base salary at the median for this Group and to use an element of variable reward if performance in that year warrants it.

  As reported last year, VCEG members requested that their base salaries for 2009/10 should be frozen at the level fixed on 1 August 2008 and VCEG has made the same request for 2010/11. Whilst Remuneration Committee has again agreed to accede to this request, the Committee is mindful of the need to ensure the long term retention of key staff.

  The retention of key research staff is also clearly key to future institutional success and an innovative incentive scheme has been introduced for key members of the professoriat with the aim of securing their long-term commitment to the University.

  Whilst there were many undoubted success in 2009/10 - most notably another Top 10 performance in the National Student Survey; the creation of five new Colleges; the award of £30million for the ESI project; and record numbers of international students recruited - the Committee noted that there had been problems with the 2009 undergraduate admissions process, that there had been time and cost overruns on the Geoffrey Pope refurbishment, that not all of the IT upgrades envisaged in the network renewal project had been delivered and that the target for research income had not been met. The Committee therefore decided that 80% of the potentially available variable reward should be paid to the members of VCEG, that is to say, 10% of base salary.

  The Remuneration Committee favours a close link between performance and reward and the use of performance linked incentive schemes has now been extended to cover College Executive teams (Deans, Associate Deans and College Managers) and to Heads of Professional Services. The Committee will determine the awards to be paid under this scheme by reference to a balanced scorecard, with the expectation that 50% of the available payments will relate to the achievement of operating surplus targets and the remaining 50% to the achievement of personal objectives. From 2010/11 onwards these same expectations will be applied to the VCEG Incentive Scheme, under which the maximum possible bonus will rise from 12.5% to 20% of salary.

VICE-CHANCELLOR AND CHIEF EXECUTIVE

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 Council met four times during the 2009/10 academic year, much of its detailed work was handled initially by four Council committees, whose decisions were formally reported to Council. These committees were 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 chaired the Audit, Remuneration and Nominations Committees, and the Vice-Chancellor chaired Strategy, Performance and Resources Committee. For the 2010/11 academic year the Strategy, Performance and Resources Committee will be stood down in light of the decision to reduce the size of Council and have it meet twice per term.

Concerning its strategic and developmental responsibilities, Council will receive recommendations and advice from the Vice Chancellor's Executive Group and the Senior Management Group from 2010/11, including a recommendation on the annual revenue budget, and monitoring reports on performance against the approved budget. This was previously provided by the Strategy, Performance and Resources Committee.

During the 2007/08 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.

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 2010 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 Risk Management Committee (formerly 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 across the University to identify and keep up to date the record of risks facing the organisation. The Risk Management Committee 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 July 2009. 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 internal auditors' annual opinion on the internal control environment is taken into account by Audit Committee in preparing their own opinion on internal control.

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 Deputy Chief Executive.

FURTHER INFORMATION

The Statutes of the University specify that the Registrar and Deputy Chief Executive 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) Mrs S Buck: Director, BSW Consulting

2) Mr P Lacey: Pro-Chancellor

3) Mr K R Seal: Chair and Pro-Chancellor

4) Mr R M P Hughes: Chair of Audit Committee and Pro-Chancellor (Finance)

5) Mr J C Lindley: Director of Finance and Deputy Registrar (in attendance)

6) Mr M Jordan: Management Consultant

7) Mr D Allen: Registrar and Deputy Chief Executive (in attendance)

8) Professor S M Smith: Vice-Chancellor and Chief Executive

9) Professor J M Kay: Senior Deputy Vice-Chancellor (Education)

10) Ms M Shoebridge: Director of Academic Services (in attendance)

11) Lady Studholme: Lay member of Council

12) Professor K E Evans: Dean, College of Engineering, Mathematics and Physical Sciences

13) Professor N Armstrong: Deputy Vice-Chancellor (International)

14) Professor M Overton: Deputy Vice-Chancellor (External Affairs) (in attendance) **

15) Mr J Beddall: President of Students' Guild *

16) Mr S Cooper: Director of Human Resources (in attendance)

17) Mr N Bull: Corporate finance banking

18) Ms B Rigg: Partner, Bond Pearce LLP

19) Mr C J Allwood: Managing Director of the Telegraph Group

20) Professor S J Rippon: College of Humanities

21) Sir Robin Nicholson: Former Professor of Metallurgy, Chief Scientific Adviser to the Cabinet Office

Members of Council 2010-11 not pictured:

Ms J Hargadon: Lay member of Council*

Dame S Leather DBE: Chair of the Charity Commission

Mr M Choules: Lord Mayor of Exeter

Professor R L Lamming: Dean, University of Exeter Business School

Members of Council whose appointment ended in 2009/10:

Professor R J P Kain, Mr B M M Biscoe, The Right Revd the Lord Bishop of Exeter, Mr H W J Stubbs, Ms S Wilcox, Mr R Stern, Professor N Talbot**

* Appointed 1 August 2010
** Retired 13 October 2010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RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

In accordance with the Royal Charter of Incorporation and Statutes of the University of Exeter, 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 Audit Committee (and in 2009/10 its Strategy, Performance and Resources Committee), 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 2009/10 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;
- 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 Group will continue in operation. The Council is satisfied that the Group 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 (HEFCE) 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 Higher Education Funding Council and the funding agreement with the Training and Development Agency for Schools 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;

- 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 10 to 17 were approved by Council on 24 November 2010 and signed on its behalf by:

K. R. Seal Chair of Council

D. J. Allen Registrar and Deputy Chief Executive

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the Group and University financial statements (the "financial statements") of the University of Exeter for the year ended 31 July 2010 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. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

The Council's responsibilities for preparing the Business Review and the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on pages 16 and 17.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Charter and Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England dated June 2008 and the Financial Memorandum with the Training and Development Agency for Schools. We also report to you whether in our opinion the Business Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

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

BASIS OF AUDIT OPINION

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

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

OPINION

In our opinion:

i) the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the group and the University's affairs as at 31 July 2010 and of the Group's surplus of income over expenditure for the year then ended;

ii) the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;

iii) in all material respects, income from the Higher Education Funding Council for England and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied for the purposes for which they were received; and

iv) in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the University's Charter and Statutes and, where appropriate, with the 2008 Financial Memorandum with the Higher Education Funding Council for England dated June 2008 and the Financial Memorandum with the Training and Development Agency for Schools.

E. Holiday
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Plym House
Plymouth
PL6 8LT

25 November 2010

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 12.

The University's share of the results in its joint ventures has been consolidated in the financial statements and details of these and the basis of consolidation are provided in note 13.

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 31.

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 deducted from tuition fee income and reported in note 2.

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 endowments and donations is included in full in the Income and Expenditure Account. Income from endowment assets held for restricted purposes imposed by the donor or funder is recognised in full on a receivable basis unless conditions attaching to the funding limit the University's right to the investment income.

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 32 to 35.

Income within the University's subsidiary companies represents the fair value of consideration receivable, excluding Value Added Tax, in the ordinary course of that Company's business for goods and services provided. In respect of long-term contracts and contracts for on-going services, turnover represents the value of work done in the year, including estimates of amounts not invoiced. Turnover in respect of long-term contracts for on-going services is recognised by reference to the stage of completion.

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.

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 29.

6. RESEARCH AND DEVELOPMENT EXPENDITURE

Expenditure on research and development is written off to the income and expenditure account in the year in which it is incurred.

7. 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.

8. TAXATION

The University is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes.

The University is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on the majority of its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

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

9. 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.

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.

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.

Finance costs directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets.

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.

10. 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.

11. 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 and 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 3 years)
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).

12. 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.

13. CHARITABLE DONATIONS

Unrestricted donations

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

Endowment funds

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

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
2. Restricted 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 University 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.

14. 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. There is no differentiation in the treatment of valuation adjustments for restricted permanent endowments that have been disposed during the year, or valuation adjustments that relate to endowments that continue to be held at year end.

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

15. 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 Colleges are not valued.

16. 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.

17. 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

UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2010

	Note	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
INCOME			
Funding body grants	1	71,631	67,670
Tuition fees and education contracts	2	74,181	60,037
Research grants and contracts	3	37,728	33,313
Other income (incl. share of joint ventures)	4	53,822	49,633
Endowment and investment income	5	1,572	1,721
Total income		238,934	212,374
Less: Share of income from joint ventures	13	(11,720)	(9,164)
Net Income		227,214	203,210
EXPENDITURE			
Staff costs	6	118,988	112,190
Other operating expenses	7	82,828	68,970
Depreciation	7	13,106	14,100
Impairment of buildings	11	2,559	–
		15,665	14,100
Interest payable	8	5,522	4,875
Total expenditure		223,003	200,135
Operating surplus		4,211	3,075
Share of operating surplus in joint ventures	13	801	228
Total operating surplus		5,012	3,303

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2010

	Note	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Total operating surplus		5,012	3,303
Exceptional items: continuing operations			
Surplus on disposal of land and buildings	9	812	402
Refinancing charges	9	–	62
Loss on investments	9	–	(500)
Surplus on continuing operations		5,824	3,267
Surplus for the year transferred from accumulated income in endowment funds	14/20	301	383
Surplus for the year	10	6,125	3,650

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

NOTE OF HISTORICAL COST RESULTS

	Note	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Surplus for the year		6,125	3,650
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	21	3,396	4,512
Release of previous years property revaluation surpluses on current year disposals and impairments	21	10,121	542
Historical cost surplus for the year		19,642	8,704

UNIVERSITY OF EXETER

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES — for the year ended 31 July 2010

	Note	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Surplus on continuing operations		5,824	3,267
Revaluation loss on tangible assets		–	(15,570)
Revaluation loss on impairment of tangible assets	21	(1,349)	–
Revaluation gain on fixed asset investments	21	654	170
Appreciation/(Depreciation) of endowment asset investments	14/20	2,570	(632)
New endowments	14/20	703	729
Transfer income previously recognised to deferred capital grants		–	(674)
Actuarial gain/(loss) on pension scheme	29	7,153	(15,415)
Actuarial loss on pension scheme in joint venture		(16)	(155)
Total recognised gains/(losses) in the year		15,539	(28,280)
Reconciliation			
Opening reserves and endowments		275,261	303,541
Total recognised gains/(losses) for the year		15,539	(28,280)
Closing reserves and endowments		290,800	275,261

BALANCE SHEETS AS AT 31 JULY 2010

	Notes	Group 2010 £'000	Group 2009 £'000	University 2010 £'000	University 2009 £'000
Fixed assets					
Tangible assets	11	447,966	440,528	448,001	440,546
Investments	12	8,891	8,147	10,930	10,357
Investments in joint ventures	13	2,153	1,370	–	–
		459,010	450,045	458,931	450,903
Endowment asset investments	14	21,074	18,102	21,074	18,102
Current assets					
Stock		428	514	428	513
Debtors: amounts falling due within one year	15	29,132	22,181	29,676	22,677
Debtors: amounts falling due after more than one year	15	2,000	472	2,000	472
Investments		24,138	30,773	24,138	30,773
Cash at bank and in hand		31,102	23,145	30,572	22,714
		86,800	77,085	86,814	77,149
Creditors: amounts falling due within one year	16	(58,819)	(54,605)	(58,632)	(54,359)
Net current assets		27,981	22,480	28,182	22,790
Total assets less current liabilities		508,065	490,627	508,187	491,795
Creditors: amounts falling due after more than one year	17	(95,755)	(92,978)	(97,584)	(94,809)
Less: Provisions for liabilities	18	(883)	(846)	(883)	(846)
Total net assets excluding pension liability		411,427	396,803	409,720	396,140
Net pension liability	29	(13,088)	(20,255)	(13,088)	(20,255)
Total net assets including pension liability		398,339	376,548	396,632	375,885
Deferred capital grants	19	107,539	101,287	107,539	101,287
Endowments					
Expendable	20	5,314	4,511	5,314	4,511
Permanent	20	15,760	13,591	15,760	13,591
		21,074	18,102	21,074	18,102
Reserves					
Income and expenditure reserve (excl. Pension reserve)		67,263	47,651	68,596	50,090
Pension Reserve		(13,088)	(20,255)	(13,088)	(20,255)
Income and expenditure reserve (incl. Pension reserve)	22	54,175	27,396	55,508	29,835
Revaluation reserve	21	215,551	229,763	212,511	226,661
Total reserves		269,726	257,159	268,019	256,496
TOTAL		398,339	376,548	396,632	375,885

The financial statements on pages 20 to 73 were approved by Council on 24 November 2010 and signed on its behalf by:
Professor S. Smith – Vice-Chancellor and Chief Executive *J. C. Lindley* – Director of Finance and Deputy Registrar

UNIVERSITY OF EXETER
CONSOLIDATED CASH FLOW STATEMENT
— for the year ended 31 July 2010

	Note	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Cash inflow from operating activities	23	14,598	21,302
Returns on investments and servicing of finance	24	(4,241)	(3,146)
Capital expenditure and financial investment	25	(8,845)	(18,184)
Management of liquid resources	26	6,635	(9,773)
Financing	27	(454)	9,750
Increase in cash in the year	28	7,693	(51)

Reconciliation of net cash flow to movement in net debt

		2010 £'000	2009 £'000
Increase in cash in the year	28	7,693	(51)
Cash (inflow) from new secured loans	27	–	(10,000)
Cash outflow from repayment of loans	27	454	250
Cash (inflow)/outflow from liquid resources	26	(6,635)	9,773
Movement in net debt in the year		1,512	(28)
Net debt at 1 August		(39,263)	(39,235)
Net debt at 31 July	28	(37,751)	(39,263)

NOTE 1 – FUNDING BODY GRANTS

	Year Ended 31 July 2010			Year Ended 31 July 2009
	HEFCE £'000	TDA £'000	TOTAL £'000	TOTAL £'000
Recurrent teaching grant	43,118	3,424	46,542	46,623
Recurrent research grant	18,220	–	18,220	14,978
Specific grants	3,286	639	3,925	3,516
Deferred capital grants released in year (note 19)	2,944	–	2,944	2,553
	67,568	4,063	71,631	67,670

NOTE 2 – TUITION FEES AND EDUCATION CONTRACTS

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Home/EU undergraduates: full-time	33,320	29,449
Home/EU undergraduates: part-time	71	209
Home/EU postgraduates: full-time	9,093	6,959
Home/EU postgraduates: part-time	1,974	2,863
International students	27,726	18,673
Non-credit bearing courses and other tuition fees	1,781	1,695
Research Training Support Grants	216	189
	74,181	60,037

NOTE 3 – RESEARCH GRANTS AND CONTRACTS

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Research councils	14,583	13,259
UK based charities	4,375	3,664
UK central government, local authorities, health & hospital authorities	10,599	9,352
UK industry, commerce and public corporations	3,247	3,797
European Union government and other bodies	3,296	2,173
Other grants and contracts	1,628	1,068
	37,728	33,313

Included above are deferred capital grants released in the year of £982,000 (2009: £1,240,000) (see note 19).

NOTE 4 – OTHER INCOME

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Residences, catering and conferences	21,809	21,824
Other services rendered		
Validation fees	178	164
UK central government, local authorities, health and hospital authorities	1,177	1,277
Others	920	250
Income from health and hospital authorities	3,764	3,712
Other operating income		
Other external grants	3,525	1,981
Summer schools, fair and degree day income	375	831
Donations and other fundraising	1,966	1,453
Erasmus	706	664
Sports and swimming pools	1,057	919
Externally recharged staff time	148	303
Supplies and services to external customers	1,307	363
Rental income and room hire	1,211	1,200
Peninsula College of Medicine and Dentistry	15	59
Tremough Campus Services	5,376	4,619
INTO University of Exeter LLP	6,344	4,545
Release of deferred capital grants (note 19)	1,333	1,359
Other income	2,611	4,110
	53,822	49,633

NOTE 5 – ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Income from expendable endowments (note 20)	335	14
Income from permanent endowments (note 20)	492	509
Income from short term investments	463	1,322
Income from fixed asset investments	121	275
Surplus/(Deficit) on disposal of fixed asset investments	101	(529)
Other interest receivable	60	130
	1,572	1,721

The interest receivable from group undertakings, that are not subsidiaries, in the current year amounted to £4,000 (2009: £15,000).

NOTE 6 – 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 2010 Number	Year Ended 31 July 2009 Number
Academic staff	636	624
Research staff	306	291
Teaching fellows (formerly tutors)	108	75
Occasional lecturers	69	62
Support staff	1,677	1,632
Casuals	142	163
Total	2,938	2,847

Staff costs for the above persons:

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Salaries and wages	98,865	94,438
Social security costs	7,126	6,678
Pension costs (note 29)	12,997	11,074
	118,988	112,190

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Emoluments of the Vice-Chancellor and Chief Executive:		
Non-performance related remuneration (including benefits in kind)	265	265
Performance related remuneration	27	30
Pension contributions to USS	49	44
	341	339

Emoluments for senior staff are determined by the Remuneration Committee as set out in the Corporate Governance and Internal Control Statement on page 10.

None of the lay members receives payment, apart from the reimbursement of expenses, for the work that the member does for the University. The reimbursement of expenses amounted to £6,000 (2009: £7,000).

NOTE 6 – 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 2010	Year Ended 31 July 2009
£100,000 – £109,999	11	4
£110,000 – £119,999	7	5
£120,000 – £129,999	4	3
£130,000 – £139,999	2	6
£140,000 – £149,999	2	–
£150,000 – £159,999	2	1
£160,000 – £169,999	1	1
£180,000 – £189,999	1	1
£200,000 – £209,999	1	1
£230,000 – £239,999	1	1
£290,000 – £299,999	1	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.

NOTE 7 – OTHER OPERATING EXPENSES

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Residences, catering and conferences	12,202	9,157
Rents and rates	926	760
Heat, light, water and power	2,430	3,174
Repairs and general maintenance	6,983	3,106
Laboratory equipment and consumables	4,379	3,999
IT hardware, software and licences	1,533	2,097
Other equipment	5,786	3,328
Books and periodicals	2,813	3,432
Non–contract staff and external examiners	4,526	5,270
Administrative costs including postage and telephones	3,315	2,702
Insurances	592	638
Publicity, publications and student recruitment	2,433	1,912
Travel, accommodation, subsistence and hospitality	6,792	5,937
Fellowships, scholarships and prizes	12,983	10,861
Field courses and other student support	5,797	4,481
Legal, professional and consultancy fees	3,267	3,342
Auditor's remuneration	64	64
Auditor's remuneration in respect of non–audit services	122	76
Cornwall Combined Services	2,856	2,660
Other expenses	3,029	1,974
	82,828	68,970

Included within Legal, professional and consultancy fees is the internal audit fee for the University of £98,000 (2009: £64,000).

Included within Auditor's remuneration is the external audit fee for the University of £52,000 (2009: £52,000).

NOTE 7 – OTHER OPERATING EXPENSES contd

ANALYSIS OF EXPENDITURE BY ACTIVITY

2009/10	Staff Costs £'000	Other Operating Expenses £'000	Depreciation/ Impairment £'000	Interest Payable £'000	Total £'000
Academic colleges	57,634	15,399	1,311	–	74,344
Academic services	11,143	7,640	1,815	–	20,598
Administration and central services	18,054	24,169	132	–	42,355
Premises	6,312	13,726	9,293	1,921	31,252
Residences, catering and conferences	6,083	9,859	2,132	2,888	20,962
Research grants and contracts	20,458	12,035	982	–	33,475
Other expenses	(696)	–	–	713	17
	118,988	82,828	15,665	5,522	223,003

The depreciation charge has been funded by:	
Deferred capital grants released – buildings (note 19)	2,814
Deferred capital grants released – equipment (note 19)	2,445
Revaluation reserve released (note 21)	3,396
General income	4,451
	13,106
The impairment charge has been funded by:	
General income	2,559
	15,665

NOTE 7 – OTHER OPERATING EXPENSES contd

ANALYSIS OF EXPENDITURE BY ACTIVITY

2008/09	Staff Costs £'000	Other Operating Expenses £'000	Depreciation/ Impairment £'000	Interest Payable £'000	Total £'000
Academic colleges	56,689	16,977	581	–	74,247
Academic services	7,996	5,616	170	–	13,782
Administration and central services	17,260	17,819	186	49	35,314
Premises	6,475	9,923	8,671	1,769	26,838
Residences, catering and conferences	6,617	8,917	3,251	2,936	21,721
Research grants and contracts	17,419	8,732	1,241	–	27,392
Other expenses	(266)	986	–	121	841
	112,190	68,970	14,100	4,875	200,135

The depreciation charge has been funded by:	
Deferred capital grants released – buildings	2,672
Deferred capital grants released – equipment	2,480
Revaluation reserve released	4,512
General income	4,436
	14,100

NOTE 8 – INTEREST PAYABLE

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
On bank loans and overdrafts:		
Repayable wholly or partly in more than 5 years	4,840	4,754
Net interest on pension scheme liabilities (note 29)	682	121
	5,522	4,875

NOTE 9 – EXCEPTIONAL ITEMS

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
Surplus on disposal of land and buildings (note 9A)	812	402
Refinancing charges (note 9B)	–	62
Loss on investments (note 9C)	–	(500)
	812	(36)

NOTE 9A – EXCEPTIONAL ITEM – SURPLUS ON DISPOSALS OF LAND AND BUILDINGS

On 23 September 2009 the University, with University Partnerships Programme (UPP), Barclays and Royal Bank of Scotland concluded phase 1 of a £133m transaction; phase 2 concluded on 11 November 2009. This transaction involved the transfer of 980 University bed spaces to UPP and the obligation of UPP to construct a further 1,948 bed spaces over the next three years. The student demand risk for this transfer is being taken by UPP. Following the close of the transaction the University received proceeds of £13.8m – which has been disclosed as a disposal of buildings. UPP has a 43 year lease concession from the University for the residences and development sites. The proceeds from these sales were reinvested into the University's strategic aims.

In both the current and prior year various off-campus sites were sold (four outlying residences in each year). The proceeds from these sales were reinvested into the University's strategic aims.

NOTE 9B – EXCEPTIONAL ITEM – REFINANCING CHARGES

During the year ended 31 July 2008 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 £4.3m. The income in the prior year was in respect of this transaction.

See note 17 for details of the bank loan facilities.

NOTE 9C – EXCEPTIONAL ITEM – LOSS ON INVESTMENTS

On 18 April 2008 the University of Exeter on behalf of the Peninsula College of Medicine and Dentistry (PCMD) placed £1m with the Icelandic bank, Landsbanki Islands hf. The deposit was placed 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.

NOTE 9C – EXCEPTIONAL ITEM – LOSS ON INVESTMENTS contd

The University placed a further £2m with Landsbanki Islands hf on 8 August 2008 (£1m) and 25 September 2008 (£1m) again in line with its investment policy.

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 most current professional advice indicates that amounts ranging between 75% and 93% of such deposits will be recoverable. The University of Exeter and PCMD have assumed 80% of the sum will be recovered in-line with CIPFA guidance. Included in the 2008/09 financial statements, within exceptional items, is the write off of the remaining 20% of the deposit totalling £0.5m (£0.1m relating to PCMD (50% of its investment) plus £0.4m relating to the University's investments).

NOTE 10 – SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

The surplus on continuing operations for the year is made up as follows:

	Year Ended 31 July 2010 £'000	Year Ended 31 July 2009 £'000
University's surplus for the year on continuing operations	4,764	5,411
Surplus/(deficit) generated by subsidiary undertakings and joint ventures	1,060	(2,144)
Consolidated surplus on continuing operations	5,824	3,267
Surplus for the year transferred from accumulated income in endowment funds	301	383
Consolidated surplus for the year	6,125	3,650

NOTE 11 – TANGIBLE FIXED ASSETS

Group	Land and Buildings Freehold	Long Leasehold	Equipment	Total
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2009	409,892	36,650	29,632	476,174
Additions	36,047	11	5,233	41,291
Disposals (note 9A)	(35,887)	–	(323)	(36,210)
At 31 July 2010	410,052	36,661	34,542	481,255
Depreciation				
At 1 August 2009	19,396	2,434	13,816	35,646
Charge for the year (note 7)	7,334	1,475	4,297	13,106
Impairment – historic cost	2,559	–	–	2,559
Impairment – revaluation	1,349	–	–	1,349
Disposals (note 9A)	(19,067)	–	(304)	(19,371)
At 31 July 2010	11,571	3,909	17,809	33,289
Net Book Value				
At 31 July 2010	398,481	32,752	16,733	447,966
At 31 July 2009	390,496	34,216	15,816	440,528
Financed by capital grant	70,906	28,158	8,475	107,539
Other	327,575	4,594	8,258	340,427
At 31 July 2010	398,481	32,752	16,733	447,966

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 £66.4m (2009: £65.3m) 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 2010 freehold and leasehold land and buildings included £45.0m (2009: £16.6m) in respect of buildings under construction.

d) Included in the cost of freehold land and buildings is £1.1m (2009: £1.1m) bank loan interest payable that has been capitalised. This has been calculated at the loan interest rate of 5.88%. 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.There has been no capitalisation of interest payable in the current or prior year.

NOTE 11 – TANGIBLE FIXED ASSETS contd

e) Long leasehold land and buildings comprise the Tremough Campus, which is held under a 125 year lease.

f) During the current and previous year there has been on-going refurbishment to the Geoffrey Pope building. Following consultation with the contractors and valuers it was decided to impair this building to reflect the existing use value to the University. The valuation was undertaken by Messrs. King Sturge who provide valuation services to the University on an ongoing basis as discussed below.

University	**Land and Buildings**		**Equipment**	**Total**
	Freehold	**Long Leasehold**		
	£'000	**£'000**	**£'000**	**£'000**
Cost or Valuation				
At 1 August 2009	409,997	36,650	29,456	476,103
Additions	36,047	11	5,198	41,256
Disposals (note 9A)	(35,887)	–	(323)	(36,210)
At 31 July 2010	410,157	36,661	34,331	481,149
Depreciation				
At 1 August 2009	19,396	2,433	13,728	35,557
Charge for the year	7,334	1,476	4,244	13,054
Impairment – historic cost	2,559	–	–	2,559
Impairment – revaluation	1,349	–	–	1,349
Disposals (note 9A)	(19,067)	–	(304)	(19,371)
At 31 July 2010	11,571	3,909	17,668	33,148
Net Book Value				
At 31 July 2010	398,586	32,752	16,663	448,001
At 31 July 2009	390,601	34,217	15,728	440,546

NOTE 11 – TANGIBLE FIXED ASSETS contd

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 interim valuation as at 31 July 2009 (the previous full valuation was at 31 July 2006) on the basis of Existing Use Value or Depreciated Replacement Cost according to the nature and use of each building. This valuation has been prepared in accordance with the Valuation Standards published by the Royal Institution of Chartered Surveyors. The valuations at this date were as follows:

	Group	University
	£'000	£'000
Freehold land and buildings	390,496	390,601
Long leasehold land and buildings	34,216	34,217

The valuations include a notional amount for professional fees and other incidental expenses.

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

	Group	University
	£'000	£'000
Freehold land and buildings	194,331	194,437
Long leasehold land and buildings	29,781	29,781

NOTE 12 – INVESTMENTS

	Group		University	
	2010	2009	**2010**	2009
	£'000	£'000	**£'000**	£'000
Fine art collection	1,511	1,435	1,511	1,435
Library special collection	2,354	2,354	2,354	2,354
Listed investments	4,949	4,316	4,949	4,316
Subsidiary undertakings	–	–	2,039	2,210
Other investments	77	42	77	42
	8,891	8,147	10,930	10,357

The University's fine art collection of paintings, drawings, sculptures, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2009 by external Fine Art Auctioneers and Valuers, Messrs. Bearnes Hampton and Littlewood, on an open market value basis. The amount of the valuation, including an addition of £75,000 is detailed above.

The University's library special collections were also professionally valued during the year ended 31 July 2009 by external Fine Art Auctioneers and Valuers, Messrs. Bearnes Hampton and Littlewood, on an open market value basis. The amount of the valuation is detailed above.

The investment in subsidiary undertakings, as consolidated in these financial statements unless immaterial to the group, 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
Exeter ISC Limited	100 Ordinary £1 and 149,900 Redeemable preference £1	Holding company
The Exeter Northcott Theatre Company	Limited by Guarantee	Theatre company

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

Exeter Enterprises Limited wholly owns the following undertakings, both of which are 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
ESI Enterprises Limited	1 Ordinary £1	Dormant

NOTE 12 – 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 shares
Exeter Nanobacteria Limited	400 Ordinary £0.10 shares
Exeter Science Park Limited	3,587 Ordinary £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 (Foundation), a registered charity, are consolidated on the grounds that the University has a controlling influence over its activities.

During the previous year, the majority of the activities of the Foundation, which was established as a development trust, were transferred to the University as it was agreed that these activities could be streamlined and that many of them are now being carried out directly by the Development and Alumni Relations Office (DARO) team within the University. The Foundation will continue to own the collections of The Bill Douglas Centre for the History of Cinema and Popular Culture but will no longer actively solicit donations. It will however, continue to accept donations from donors who prefer to donate to the Foundation rather than the University.

The transfer has been approved by the Charity Commission.

DARO continues to work to generate philanthropic financial and non-financial support for the University in a professional and co-ordinated manner.

NOTE 13 – INVESTMENT IN JOINT VENTURES

Peninsula College of Medicine and Dentistry

The Peninsula College of Medicine and Dentistry (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 (excluding research) is included within the income and expenditure account and balance sheet of each of the Universities. The items comprising the externally funded research activity of PCMD are included within the statements of the university employing each project's Principal Investigator.

PCMD's principal place of business is The John Bull Building, Tamar Science Park, Research Way, Plymouth.

See note 36 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.

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.

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. Its principal place of business is The Old Library, Prince of Wales Road, Exeter.

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.

NOTE 13 – INVESTMENT IN JOINT VENTURES contd

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

	2010 £'000	2009 £'000
Share of income:		
Tremough Campus Services	5,376	4,619
INTO University of Exeter LLP	6,344	4,545
	11,720	9,164
Share of operating surplus/(deficit):		
Tremough Campus Services	146	(317)
INTO University of Exeter LLP	655	545
	801	228
Share of gross assets:		
Tremough Campus Services	30,516	28,538
INTO University of Exeter LLP	5,222	4,568
	35,738	33,106
Share of gross liabilities:		
Tremough Campus Services	(28,940)	(27,090)
INTO University of Exeter LLP	(4,645)	(4,646)
	(33,585)	(31,736)
Share of net assets/(liabilities):		
Tremough Campus Services	1,576	1,448
INTO University of Exeter LLP	577	(78)
	2,153	1,370

NOTE 14 – ENDOWMENT ASSET INVESTMENTS – Group and University

	2010 £'000	2009 £'000
Balance at 1 August	18,102	15,974
New endowments invested	703	729
New endowments invested – transferred from income and expenditure reserves	–	2,414
Increase/(Decrease) in market value of investments	2,570	(632)
(Decrease) in cash balances held for endowment funds	(301)	(383)
Balance at 31 July	21,074	18,102
The investments comprise:		
Fixed interest stocks	3,964	3,733
Equities	15,577	14,259
Property	521	110
Alternative investments	326	–
Bank balances	686	–
	21,074	18,102

During the previous year, the majority of the activities of the Exeter University Foundation were transferred to the University. This transfer included its portfolio of investments which were recognised through the income and expenditure account in prior year's consolidation. See note 12 for further details.

NOTE 15 – DEBTORS

	Group 2010 £'000	Group 2009 £'000	University 2010 £'000	University 2009 £'000
Amounts falling due within one year:				
Debtors	6,670	8,737	6,916	8,896
Prepayments and accrued income	20,325	11,158	20,318	11,096
Amounts owed by group undertakings:				
Subsidiary companies	–	–	305	399
Related parties	2,137	2,286	2,137	2,286
	29,132	22,181	29,676	22,677
Amounts falling due after more than one year:				
Debtors	2,000	–	2,000	–
Prepayments and accrued income	–	472	–	472
	31,132	22,653	31,676	23,149

Included within debtors falling due after more than one year is an amount of £2,000,000 that relates to deposits placed with Landsbanki Islands hf. This balance is net of the provision of £500,000 (2009: £500,000) which is based on current professional advice. The deposits were previously held as short term cash investments in the prior year. The deposits are contractually due to be repaid in more than one year.

See note 9C for further details.

NOTE 16 – CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group 2010 £'000	2009 £'000	University 2010 £'000	2009 £'000
Bank loans and overdrafts (note 17)	265	1	265	1
Research grants received on account	15,152	12,009	15,152	12,009
Trade creditors	11,441	10,530	11,300	10,377
Other creditors	11,681	14,120	11,698	14,179
Social security and other taxation payable	2,867	2,549	2,867	2,549
Accruals and deferred income	16,408	14,868	16,345	14,716
Amounts owed to group undertakings:				
Related parties	1,005	528	1,005	528
	58,819	54,605	58,632	54,359

Other creditors include an amount of £276,000 (2009: £1,627,000) due in respect of pension liabilities following early retirements.

NOTE 17 – CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		University	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Bank loans (see below)	92,690	92,690	92,690	92,690
Inherited Liability – Cornwall County Council	28	43	28	43
Other long term creditors	–	245	–	245
Accruals and deferred income	3,037	–	3,037	–
Amounts owed to group undertakings:				
Subsidiary companies	–	–	1,829	1,831
	95,755	92,978	97,584	94,809

Other long-term creditors include an amount of £nil (2009: £245,000) due in respect of pension liabilities following early retirements.

i) Bank loans and overdrafts – Group and University

	2010	2009
	£'000	£'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	265	1
Bank loans:		
Less than one year	–	–
In one to two years	–	–
In two to five years	5,513	2,756
In five years or more	87,177	89,934
	92,955	92,691

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

	Facility	Interest Rate	Repayment	Term	2010	2009
	£'000	%			£'000	£'000
National Westminster Bank Plc	100,000					
Tranches 1 and 2		5.54	Quarterly	35 years (to 2043)	31,779	31,779
Tranche 3		5.40	Quarterly	35 years (to 2043)	20,230	20,230
Barclays Bank Plc	65,000					
Tranches 1 and 2		5.53	Quarterly	35 years (to 2043)	20,413	20,413
Tranche 3		5.41	Quarterly	35 years (to 2043)	10,268	10,268
Tranche 4		4.38	Quarterly	34 years (to 2043)	10,000	10,000
					92,690	92,690
Repayable within one year					–	–
					92,690	92,690

NOTE 17 – CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR contd

During the year ended 31 July 2008 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. Capital repayments commence in 2013.

Both bank loans consist of A and B facilities. Both A facilities were drawn during the year ended 31 July 2008 in three tranches and the interest rates are fixed, via the interest rate swap transactions mentioned below. During the year ended 31 July 2009 £10m of the Barclays B facility was drawn and the interest rate was fixed, again via the interest rate swap transactions mentioned below.

The interest rate swap transaction with each bank is for the total amount of each 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.

The University also has three further short term underlying basis swap agreements in place covering its total borrowing where the University pays interest at 3-month LIBOR on the principal and receives interest at 1-month LIBOR plus a spread of the margin. These agreements mature in 2010/11.

NOTE 18 – PROVISIONS - Group and University

	Building works £'000	Deferred capital grant £'000	Total £'000
Balance at 1 August 2009	846	–	846
Transfer from income and expenditure account	–	883	883
Utilised in year	(846)	–	(846)
Balance at 31 July 2010	–	883	883

Building works

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'.

Deferred capital grant

In the development of its activities at the Tremough Campus in Cornwall the University of Exeter and University College Falmouth have been in receipt of two phases of funding from the European Union. The European Court of Auditors undertook an audit of Phase 2 of this funding during the current and previous years. This audit identified some areas where it is asserted that the procurement processes which utilised these funds were not fully compliant with the European Union Procurement Regulations. The University of Exeter and University College Falmouth are in discussion with the relevant authorities in respect of this matter. A provision has been recognised which represents management's estimate of the liability based on current professional advice.

The provision also reduces the deferred capital grant balance.

NOTE 19 – DEFERRED CAPITAL GRANTS – Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2009			
Land and buildings	52,744	41,289	94,033
Equipment	4,746	2,508	7,254
	57,490	43,797	101,287
Grants receivable			
Land and buildings	5,936	1,909	7,845
Equipment	2,164	1,502	3,666
	8,100	3,411	11,511
Released to Income and Expenditure Account			
Land and buildings	1,632	1,182	2,814
Equipment	1,312	1,133	2,445
	2,944	2,315	5,259
At 31 July 2010			
Land and buildings	57,048	42,016	99,064
Equipment	5,598	2,877	8,475
	62,646	44,893	107,539
Released to Income and Expenditure Account			
Funding body grants			2,944
Research grants and contracts			982
Other income			1,333
			5,259

NOTE 20 – ENDOWMENTS – Group and University

		Restricted Permanent £'000	Restricted Expendable £'000	2010 Total £'000	2009 Total £'000
At 1 August:	Capital	13,266	4,511	17,777	15,678
	Accumulated income	325	–	325	296
		13,591	4,511	18,102	15,974
New endowments		–	703	703	729
New endowments transferred from income and expenditure reserves		–	–	–	2,414
		–	703	703	3,143
Investment income		492	335	827	523
Expenditure		(439)	(689)	(1,128)	(906)
		53	(354)	(301)	(383)
Increase/(Decrease) in market value of investments		2,116	454	2,570	(632)
At 31 July		15,760	5,314	21,074	18,102
Represented by:	Capital	15,382	5,305	20,687	17,777
	Accumulated income	378	9	387	325
		15,760	5,314	21,074	18,102

The University does not hold any endowments classed as unrestricted permanent.

Represented:	2010 £'000	2009 £'000
Trustees Security Pool	3,237	2,790
Institute for Arab and Islamic Studies	13,205	11,468
PMS Vandervell	894	782
Fundraising	3,738	3,062
	21,074	18,102

During the previous year, the majority of the activities of the Exeter University Foundation were transferred to the University. This transfer included its portfolio of investments which were recognised through the income and expenditure account in previous year's consolidation.

See note 12 for further details.

NOTE 21 – REVALUATION RESERVE

Group	**Freehold Land & Buildings £'000**	**Fixed Asset Investments £'000**	**Total £'000**
At 1 August 2009	224,858	4,905	229,763
Revaluation in the year			
Fixed asset investments – Fine art	–	77	77
Fixed asset investments – Quoted shares	–	577	577
	–	654	654
Impairment on re-valued assets	(1,349)	–	(1,349)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(3,396)	–	(3,396)
Release of previous years property revaluation surpluses on current year disposals	(10,121)	–	(10,121)
	(13,517)	–	(13,517)
At 31 July 2010	209,992	5,559	215,551

University	**Freehold Land & Buildings £'000**	**Fixed Asset Investments £'000**	**Total £'000**
At 1 August 2009	221,756	4,905	226,661
Revaluation in the year			
Fixed asset investments – Fine art	–	77	77
Fixed asset investments – Quoted shares	–	577	577
	–	654	654
Impairment on revalued assets	(1,349)	–	(1,349)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(3,334)	–	(3,334)
Release of previous years property revaluation surpluses on current year disposals	(10,121)	–	(10,121)
	(13,455)	–	(13,455)
At 31 July 2010	206,952	5,559	212,511

The impairment on re-valued assets is in relation to the Geoffrey Pope building. See note 11 for further details.

NOTE 22 – INCOME AND EXPENDITURE RESERVE

	Group		University	
	2010	**2009**	**2010**	**2009**
	£'000	**£'000**	**£'000**	**£'000**
Balance at 1 August	27,396	37,350	29,835	34,463
Surplus for the year	6,125	3,650	5,065	5,794
Transfers from revaluation reserve	13,517	5,054	13,455	4,992
Actuarial gain/(loss) on pension schemes	7,137	(15,570)	7,153	(15,414)
Unrealised losses on fixed asset investments	–	(3,088)	–	–
Balance at 31 July	54,175	27,396	55,508	29,835

Represented by:

Group	**Balance at 1 August 2009 £'000**	**Result for the year £'000**	**Revaluation Reserve £'000**	**Other Movements £'000**	**Balance at 31 July 2010 £'000**
Available reserves					
Colleges	7,971	13,870	–	(6,630)	15,211
Professional Services	1,925	1,557	–	(2,135)	1,347
Strategic Development Fund	4,545	746	–	(1,040)	4,251
Infrastructure Fund	3,388	(2,785)	–	19,762	20,365
Fundraising	1,394	119	–	–	1,513
Other reserves	586	586	–	27	1,199
General reserve	5,739	592	14,866	(13,842)	7,355
	25,548	14,685	14,866	(3,858)	51,241
Committed reserves					
Capital reserve	30,346	(8,574)	–	537	22,309
Residences equalisation	(8,243)	–	–	1,956	(6,287)
Pension liability	(20,255)	14	–	7,153	(13,088)
	1,848	(8,560)	–	9,646	2,934
Total Group reserves	27,396	6,125	14,866	5,788	54,175

NOTE 22 – INCOME AND EXPENDITURE RESERVE contd

University	Balance at 1 August 2009 £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2010 £'000
Available reserves					
Colleges	7,971	13,870	–	(6,630)	15,211
Professional Services	1,925	1,557	–	(2,135)	1,347
Strategic Development Fund	4,545	746	–	(1,040)	4,251
Infrastructure Fund	3,388	(2,785)	–	19,762	20,365
Fundraising	1,394	119	–	–	1,513
Other reserves	586	586	–	27	1,199
General reserve	8,178	(468)	14,804	(13,826)	8,688
	27,987	13,625	14,804	(3,842)	52,574
Committed reserves					
Capital reserve	30,346	(8,574)	–	537	22,309
Residences equalisation	(8,243)	–	–	1,956	(6,287)
Pension liability	(20,255)	14	–	7,153	(13,088)
	1,848	(8,560)	–	9,646	2,934
Total University reserves	29,835	5,065	14,804	5,804	55,508

NOTE 23 – RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2010 £'000	2009 £'000
Surplus on continuing operations	6,125	3,650
FRS 17 – Pension adjustment	(14)	(468)
Depreciation (note 7)	13,106	14,100
Impairment of land and buildings (note 11)	2,559	–
Surplus on disposal of tangible fixed assets	(801)	(402)
Deferred capital grants released (note 19)	(5,259)	(5,152)
Endowment and investment income (note 5)	(1,572)	(1,721)
Interest payable (note 8)	4,840	4,754
Decrease in stock	87	57
(Increase) in debtors	(9,491)	(845)
Increase in creditors	5,018	7,329
Net cash inflow from operating activities	14,598	21,302

NOTE 24 – RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2010 £'000	2009 £'000
Income from short term investments	526	1,478
Other interest received	60	130
Interest paid	(4,827)	(4,754)
Net cash outflow from returns on investments and servicing of finance	(4,241)	(3,146)

NOTE 25 – CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2010 £'000	2009 £'000
Purchase of tangible assets	(39,104)	(33,969)
Payments to acquire long term investments	(1,491)	(957)
Total fixed and endowment assets acquired	(40,595)	(34,926)
Receipts from the sale of tangible assets	17,641	1,223
Receipts from the sale of long term investments	192	1,317
Receipts from the sale of endowment assets	1,462	–
Deferred capital grants received	11,752	13,473
Endowments received	703	729
Net cash outflow from capital expenditure and financial investment	(8,845)	(18,184)

Included within receipts from the sale of tangible assets are cash inflows relating to items presented as exceptional in the primary financial statements.

NOTE 26 – MANAGEMENT OF LIQUID RESOURCES

	2010 £'000	2009 £'000
Cash withdrawn from/(placed in) short term deposits	6,635	(9,773)
Net cash inflow/(outflow) from management of liquid resources	6,635	(9,773)

NOTE 27 – FINANCING

	2010 £'000	2009 £'000
Debt due beyond one year:		
New loans repayable by 2043	–	10,000
	–	10,000
Repayment of amounts borrowed	(454)	(250)
Net cash (outflow)/inflow from financing	(454)	9,750

NOTE 28 – ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2009 £'000	Cash Flows £'000	At 31 July 2010 £'000
Cash in hand and at bank	23,145	7,957	31,102
Overdrafts	(1)	(264)	(265)
	23,144	7,693	30,837
Debt due within 1 year	(202)	194	(8)
Debt due after 1 year	(92,978)	260	(92,718)
Current asset investments	30,773	(6,635)	24,138
	(39,263)	1,512	(37,751)

NOTE 29 – 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 finalised actuarial valuation for USS was at 31 March 2008 and for ERBS was 6 April 2009. 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.

(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 scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

NOTE 29 – PENSION SCHEMES contd

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

The triennial 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. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

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

Standard mortality tables were used as follows:

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

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

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

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

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

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

NOTE 29 – PENSION SCHEMES contd

salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

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

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). Compared to the previous 12 months, the funding level has improved from 74% (as at 31 March 2009) to 91%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using a AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial valuation are set out below:

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

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically 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 needs 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 what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the

NOTE 29 – PENSION SCHEMES contd

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 although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions as close to or above 100% thereby minimizing the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

At 31 March 2009, USS had over 135,000 active members and the University had over 1,700 active members participating in the scheme.

The total pension cost for the institution was £10,348,000 (2009: £8,606,000). This includes £1,298,000 (2009: £1,126,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 16% of pensionable salaries.

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

The results of the latest actuarial valuation dated 5 April 2009 are now finalised and used for the first time this year. This valuation continued to show that the funds held by the Scheme were insufficient to meet anticipated future commitments. The University has set a revised target of 25 years and 9 months from the date of the valuation, to eliminate this deficit and has already increased the employer's contributions in order to fund the projected shortfall. The employee contribution rate will also increase to 6.25% (from 6.00%) from 1 August 2010. The assumptions and other data, which have the most significant effect on the determination of contribution levels, are as follows:

Latest actuarial valuation	6 April 2009
Investment return – past service per annum	6.50%
Investment return – future service per annum	6.50%
Pensionable salary increases per annum	4.70%
Pension increases per annum	2.95%
Price inflation per annum	3.20%
Actuarial value of assets at date of last valuation	£55.6m
Value of past service liabilities	£107.9m
Proportion of members' accrued benefits covered by the actuarial value of the assets	51.5%

NOTE 29 – PENSION SCHEMES contd

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:

	2010	2009	2008
	%	%	%
Discount rate for scheme liabilities	5.6	6.3	6.6
Inflation assumption – RPI	3.3	3.7	3.8
Inflation assumption – CPI	2.8	N/A	N/A
Long-term salary growth increases*	4.0	4.7	4.8
Increases on CARE benefits before retirement (in active service)	3.3	N/A	N/A
Pension payment increases – pre 01/08/10 service	2.8	3.7	3.8
Pension payment increases – post 01/08/10 service	2.3	N/A	N/A

** A lower rate averaging 2.1% per annum is assumed for the three years immediately following the year-end.*

The mortality assumptions are based on standard mortality tables which allow for minimum future mortality improvements. The assumptions are as follows:

	2010	2009	2008
	Yrs	Yrs	Yrs
Future life expectancies at age 65:			
Male currently aged 65	20.1	20.1	20.0
Female currently aged 65	22.2	22.2	22.1
Male currently aged 45	22.0	21.9	21.8
Female currently aged 45	23.4	23.4	23.3

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 2010		31 July 2009		31 July 2008	
	Long-term rate of return expected % p.a.	**£'000**	Long-term rate of return expected % p.a.	£'000	Long-term rate of return expected % p.a.	£'000
Equities	8.2	49,073	8.5	40,475	7.9	41,744
Corporate bonds	5.4	5,834	6.0	5,548	5.9	5,245
Government bonds	4.2	13,937	4.0	12,944	4.9	15,888
Cash/Other	3.3	517	4.8	810	5.7	1,347
	7.1	69,361	7.2	59,777	6.9	64,224
Present value of scheme liabilities		(82,449)		(80,032)		(69,532)
Pension liability		(13,088)		(20,255)		(5,308)

NOTE 29 – 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 2010.

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account

	2010 £'000	2009 £'000
Current service cost	2,256	2,271
Past service cost	180	–
Total operating charge	2,436	2,271

Analysis of the amount charged to the income and expenditure account

	2010 £'000	2009 £'000
Within pension costs (note 6) – monthly contributions	3,132	2,860
Within pension costs (note 6) – FRS 17	(696)	(589)
Total operating charge	2,436	2,271

Analysis of amount charged to interest payable

	2010 £'000	2009 £'000
Expected return on pension scheme assets	4,218	4,455
Interest on pension scheme liabilities	(4,900)	(4,576)
Net charge in accounts	(682)	(121)

NOTE 29 – PENSION SCHEMES contd

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

	2010 £'000	2009 £'000
Total actuarial gains/(losses)	7,153	(15,415)
Total gain/(loss) recognised in the STRGL	7,153	(15,415)
Cumulative amount of losses recognised in the STRGL	(27,380)	(34,533)

In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The University has considered the University of Exeter Retirement Benefits Scheme rules and associated members' literature and has concluded that, as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain recognised through the Statement of Total Recognised Gains and Losses ('STRGL'). At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change in the financial statements for the following year.

Movement in the scheme deficit during the year

	2010 £'000	2009 £'000
Deficit on scheme at 1 August	(20,255)	(5,308)
Movements in the year:		
Current service cost	(2,256)	(2,271)
Past service cost	(180)	–
Contributions paid	3,132	2,860
Other finance (expenditure)/income	(682)	(121)
Actuarial gains/(losses)	7,153	(15,415)
Deficit on scheme at 31 July	(13,088)	(20,255)

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

	2010 £'000	2009 £'000
Opening defined benefit obligation	80,032	69,532
Current service cost	2,256	2,271
Past service cost	180	–
Interest cost	4,900	4,576
Contributions by scheme participants	927	899
Actuarial (gains)/losses on scheme liabilities*	(313)	6,725
Net benefits paid out	(5,533)	(3,971)
Closing defined benefit obligation	82,449	80,032

* Includes changes to the actuarial assumptions

NOTE 29 – PENSION SCHEMES contd

Changes to the fair value of scheme assets during the year

	2010 £'000	2009 £'000
Opening fair value of scheme assets	59,777	64,224
Expected return on scheme assets	4,218	4,455
Actuarial gains/(losses) on scheme assets	6,840	(8,690)
Contributions by the employer	3,132	2,860
Contributions by scheme participants	927	899
Net benefits paid out	(5,533)	(3,971)
Closing fair value of scheme assets	69,361	59,777

Actual return on scheme assets

	2010 £'000	2009 £'000
Expected return on scheme assets	4,218	4,455
Actuarial gains/(losses) on scheme assets	6,840	(8,690)
Actual return on scheme assets	11,058	(4,235)

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

	2010 £'000	2009 £'000	2008 £'000
Fair value of scheme assets	69,361	59,777	64,224
Defined benefit obligation	(82,449)	(80,032)	(69,532)
Deficit in the scheme	(13,088)	(20,255)	(5,308)

History of experience gains and losses:

	2010	2009	2008	2007 Restated	2006 Restated
Experience gains/(losses) on scheme assets:					
– Amount (£'000)	6,840	(8,690)	(7,212)	3,003	1,978
– % of scheme assets	9.9%	(14.5%)	(11.2%)	4.5%	3.3%
Experience gains/(losses) on scheme liabilities:					
– Amount (£'000)	(5,117)	(3,234)	(997)	3,039	(2,347)
– % of the present value of scheme liabilities	(6.2%)	(4.0%)	(1.4%)	4.3%	(3.1%)
Total amount recognised in the statement of total recognised gains and losses:					
– Amount (£'000)	7,153	(15,415)	(3,354)	12,120	(3,960)
– % of the present value of scheme liabilities	8.7%	(19.3%)	(4.8%)	17.3%	(5.2%)

NOTE 29 – PENSION SCHEMES contd

(iii) Total Pension Cost

The total pension cost for the University was:

	2010 £'000	2009 £'000
Contributions to USS - regular cost	10,348	8,606
Contributions to ERBS - current and past service cost	2,436	2,271
Contributions to other pension schemes	213	197
	12,997	11,074
Supplementary pension costs	8	12
Early retirement pension enhancement costs	492	624
Total pension cost	13,497	11,710

NOTE 30 – CAPITAL COMMITMENTS – Group and University

	2010 £'000	2009 £'000
Commitments contracted at 31 July	43,931	8,396
Authorised but not contracted at 31 July	28,887	88,051
	72,818	96,447

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

Capital commitments will be funded by a mixture of grants, loans, donations and internal working capital.

See note 31 for the capital commitments of Group undertakings.

NOTE 31 – 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 and shareholder 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 wholly owned.

NOTE 31 – RELATED PARTY TRANSACTIONS contd

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.

During the previous year TCS commenced drawing down a loan with Barclays Bank Plc for new residences. The facility is for £20.5m and is repayable over 30 years. The University and UCF have jointly and equally guaranteed this facility and also 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. TDV is also receiving grants to construct non-academic facilities related to the infrastructure and shared spaces development. These grants are received by TDV acting as an agent for the University and UCF. The grants and related costs are passed to the University and UCF on an agreed 50:50 basis.

During the year TDV continued to contract for the design and construction of infrastructure, shared and academic spaces for the further development for the Tremough campus. 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. The TCS Group has capital commitments as follows:

	2010 £'000	2009 £'000
Commitments contracted at 31 July	2,808	13,775
Authorised but not contracted at 31 July	47,686	5,141
	50,494	18,916

Amounts authorised are in respect of various construction projects at Tremough, Penryn less commitments to date in TDV. Commitments relate to the construction of the Phase 2A residences together with new construction projects in progress.

Transactions between the University and TCS were as follows:

	2010 £'000	2009 £'000
Income derived from the TCS Group	1,951	190
Expenditure incurred with the TCS Group	24	2,263
Payments by the TCS Group on behalf of the University	2,188	1,509

NOTE 31 – RELATED PARTY TRANSACTIONS contd

'Payments by TCS on behalf of the University' represents amounts paid to contractors for the University's share of the design and construction of the further development of the Tremough campus.

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

	2010 £'000	2009 £'000
Amount owing from University of Exeter to the TCS Group	73	960
Amount due to University of Exeter from the TCS Group	55	1,452

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.

Transactions between the University and INTO University of Exeter LLP in the normal course of business were as follows:

	2010 £'000	2009 £'000
Operating costs recharged to INTO University of Exeter LLP	3,168	2,263
Expenditure incurred with INTO University of Exeter LLP	320	327

The balances owing between the University and INTO University of Exeter LLP:

	2010 £'000	2009 £'000
Amount owing from INTO University of Exeter LLP	992	375
Amount due to INTO University of Exeter LLP	320	322

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

	2010 £'000	2009 £'000
Amount owing from Exeter ISC to the University of Exeter	1	1

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 2010 the surplus on the Guild's activities was £74,000 (2009: £247,000 surplus) and its capital and reserves totalled £332,000 at this date (2009: £258,000).

NOTE 31 – RELATED PARTY TRANSACTIONS contd

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 £263,000 (2009: £244,000).

NOTE 32 – ACCESS FUNDS

Summary of transactions for the year ended 31 July 2010

	2010 £'000	2009 £'000
Balance at 1 August	28	22
Funding Council grants	219	253
Interest earned	1	5
	248	280
Disbursed to students	(228)	(247)
Administration costs	(8)	(5)
Balance at 31 July	12	28

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 33 – TDA INITIAL TEACHER TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2010

	2010 £'000	2009 £'000
Balance at 1 August	127	160
TDA grants received	3,466	3,596
Total TDA training bursary funding available for the year	3,593	3,756
Disbursements to students	(3,658)	(3,629)
Balance at 31 July	(65)	127

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 34 – MAINSTREAM RECRUITMENT AND RETENTION FUNDING

Summary of transactions for the year ended 31 July 2010

	2010 £'000	2009 £'000
Balance at 1 August	–	–
TDA funds received	26	10
Total TDA funding available for the year	26	10
TDA recruitment and retention expenditure	(11)	(10)
Balance at 31 July	15	–

NOTE 35 – TDA STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2010

	2010 £'000	2009 £'000
Funds received	293	410
Disbursements to students	(260)	(378)
Excess of income over expenditure for the year	33	32

NOTE 36 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY

INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2010

		University of Exeter 2010	University of Plymouth 2010	Total 2010	Total 2009
INCOME	**Note**	**£'000**	**£'000**	**£'000**	**£'000**
Funding Council grants	iii	8,482	8,482	16,964	18,668
Tuition fees and education contracts		2,274	2,300	4,574	3,904
NHS funding	iv	3,764	3,764	7,528	7,425
Research grants and contracts		8,623	2,484	11,107	7,400
Other income	v	2,437	2,417	4,854	3,564
Endowment and investment income		105	104	209	628
Total income		25,685	19,551	45,236	41,589
EXPENDITURE					
Staff costs	vi	12,254	8,543	20,797	17,618
Other operating expenses		11,301	8,913	20,214	13,973
Depreciation	viii	135	99	234	219
Total expenditure		23,690	17,555	41,245	31,810
Total operating surplus		1,995	1,996	3,991	9,779
Exceptional items: continuing operations					
Loss on investment	vii	–	–	–	(200)
Surplus on continuing operations		1,995	1,996	3,991	9,579

BALANCE SHEET of the HE Community Chest as at 31 July 2010

	Note	2010 £'000	2009 £'000
Fixed assets			
Tangible assets	viii	3,717	2,370
Current assets			
Debtors	ix	12,452	4,919
Cash at bank and in hand	x	25,359	28,439
		37,811	33,358
Creditors: amounts falling due within one year	xi	(18,151)	(17,689)
Net current assets		19,660	15,669
Total assets less current liabilities		23,377	18,039
NET ASSETS		23,377	18,039
Deferred capital grants		3,717	2,370
Reserves	xii	19,660	15,669
TOTAL		23,377	18,039

NOTE 36 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

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 Joint Strategy Board is a committee of the Council of the University of Exeter and the Board of Governors of the University of Plymouth and is responsible to the Universities in respect of the overall management of PCMD within the policies and parameters set by the Universities' governing bodies. In making recommendations the Joint Strategy Board has due regard to the statutory and other legal obligations of the Universities and the NHS institutions.

ii. *Audit arrangements*

A 50% share of the Income, Expenditure and Balance Sheet items (excluding research) of the Peninsula College of Medicine and Dentistry is included within the Income and Expenditure Account and Balance Sheet of each of the Universities. The items comprising the externally funded research activity of PCMD are included within the statements of the university employing each project's Principal Investigator.

These transactions are part of the audited financial statements of each University for the year ended 31 July 2010.

iii. *Funding Council grants*

	2010 £'000	2009 £'000
Recurrent grant	15,928	17,405
Other specific grants	953	1,171
Deferred capital grants released in the year: Equipment	83	92
	16,964	18,668

iv. *NHS funding*

	2010 £'000	2009 £'000
NHS funding	7,528	7,425

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

v. *Other income*

	2010 £'000	2009 £'000
Other grant income	4,630	2,768
Other income	224	796
	4,854	3,564

NOTE 36 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

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 2010	**Year Ended 31 July 2009**
	Number	Number
Academic staff	100	86
Research staff	108	94
Teaching fellows (formerly tutors)	7	6
Support staff	197	191
Total	412	377

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

vii. *Exceptional item: Loss on investment*

Included within debtors is an amount of £800,000 that relates to a deposit placed with Landsbanki Islands hf. This balance is net of a provision of £200,000 (2009: £200,000) that was written off in the year ended 31 July 2009. The deposit was previously held as a short term cash investment.

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 most current professional advice indicates that amounts ranging between 75% and 93% of such deposits will be recoverable. The Universities of Exeter and Plymouth have assumed 80% of the sum will be recovered in-line with CIPFA guidance.

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

viii. *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

NOTE 36 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

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.

ix. Debtors

	2010 £'000	2009 £'000
Debtors	3,141	1,961
Prepayments and accrued income	8,043	2,021
Due from partner university	1,268	937
	12,452	4,919

As noted in vii) above, included within debtors is an amount of £800,000 that relates to deposits placed with Landsbanki Islands hf. The deposits were previously held as short term cash investments in the prior year. The deposits are contractually due to be repaid in more than one year.

x. Cash at bank and in hand

	2010 £'000	2009 £'000
Held by:		
University of Exeter	11,654	19,363
University of Plymouth	13,704	8,522
University of Plymouth – PCMD	1	554
	25,359	28,439

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 instant access accounts and short-term deposits.

NOTE 36 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

xi. Creditors: amounts falling due within one year

	2010 £'000	2009 £'000
Trade creditors	263	113
Other creditors	44	88
Due to partner universities	–	580
Deferred income:		
HEFCE Capital funding	2,131	1,977
HEFCE Dental start-up funding	1,468	1,767
NHS Capital funding	1,118	2,341
NHS Dental start-up funding	2,451	2,896
NHS SIFT	1,440	–
Accruals and other deferred income	9,236	7,927
	18,151	17,689

xii. Reserves

	2010 £'000	2009 £'000
Opening balance	15,669	6,090
Surplus for the year	3,991	9,579
Closing balance	19,660	15,669

FIVE YEAR SUMMARY ACCOUNTS

	2009/10	2008/09	2007/08	2006/07 Restated	2005/06
	£'000	£'000	£'000	£'000	£'000
INCOME AND EXPENDITURE					
Income					
Funding body grants	71,631	67,670	63,544	57,898	52,673
Tuition fees & education contracts	74,181	60,037	45,507	35,179	29,712
Research grants & contracts	37,728	33,313	24,497	20,100	16,494
Other income	42,102	40,469	40,205	36,142	36,824
Endowment & investment income	1,572	1,721	4,988	3,506	1,899
Total income	227,214	203,210	178,741	152,825	137,602
Expenditure					
Staff costs	118,988	112,190	100,480	90,082	79,066
Other operating expenses	82,828	68,970	58,460	50,423	45,034
Depreciation	13,106	14,100	11,594	10,054	7,535
Impairment	2,559	–	–	–	–
Interest payable	5,522	4,875	4,930	4,944	4,499
Total expenditure	223,003	200,135	175,464	155,503	136,134
Operating surplus/(deficit)	4,211	3,075	3,277	(2,678)	1,468
Share of operating profit/(loss) in JV	801	228	(866)	(817)	(318)
Exceptional items	812	(36)	(5,579)	3,188	(2,351)
Transfer (to) / from endowments	301	383	206	37	–
Surplus/(Deficit) for the year	6,125	3,650	(2,962)	(270)	(1,201)
Historical cost adjustments	13,517	5,054	4,999	6,373	4,913
Historical cost surplus for the year	19,642	8,704	2,037	6,103	3,712

	2009/10	2008/09	2007/08	2006/07 Restated	2005/06
	£'000	£'000	£'000	£'000	£'000
BALANCE SHEET					
Fixed assets	459,010	450,045	449,370	457,408	432,267
Endowment asset investments	21,074	18,102	15,974	18,534	16,645
Net current assets	27,981	22,480	20,791	20,940	15,939
Creditors: amounts falling due after more than one year	(95,755)	(92,978)	(83,180)	(77,871)	(76,796)
	412,310	397,649	402,955	419,011	388,055
Provisions for liabilities	(883)	(846)	(893)	(1,899)	–
Pension liability	(13,088)	(20,255)	(5,308)	(2,990)	(15,640)
Total net assets	398,339	376,548	396,754	414,122	372,415
Represented by:					
Deferred capital grants	107,539	101,287	93,213	85,558	64,319
Endowment reserve	21,074	18,102	15,974	18,534	16,645
Revaluation reserve	215,551	229,763	250,217	271,376	275,389
Income and expenditure reserve	54,175	27,396	37,350	38,654	16,062
Total funds	398,339	376,548	396,754	414,122	372,415

FINANCIAL STATISTICS

	2009/10 %	2008/09 %	2007/08 %	2006/07 Restated %	2005/06 %
Sources of income (% of income)					
Funding body grants	31.5	33.3	35.6	37.9	38.3
Tuition fees – Home and EU	19.6	19.4	17.3	15.2	12.3
Tuition fees – Overseas and other	13.1	10.1	8.2	7.8	9.3
Research grants & contracts	16.6	16.4	13.7	13.2	12.0
Residences, catering and conferences	9.6	10.7	11.9	13.6	15.2
Other income	8.9	9.2	10.6	10.0	11.5
Endowment & investment income	0.7	0.9	2.7	2.3	1.4
Total income	100.0	100.0	100.0	100.0	100.0
Analysis of expenditure (% of expenditure)					
Staff costs	53.4	56.1	57.3	57.9	58.1
Other operating expenses	37.1	34.4	33.3	32.4	33.1
Depreciation	5.9	7.0	6.6	6.5	5.5
Impairment	1.1	–	–	–	–
Interest payable	2.5	2.5	2.8	3.2	3.3
Total expenditure	100.0	100.0	100.0	100.0	100.0
Operating surplus/(deficit) as a % of total income	1.8	1.5	1.8	(1.8)	1.1
Indicators of financial strength					
Days ratio of available funds* to total expenditure** *The number of days expenditure that could be sustained from available funds*	90.5	50.3	45.8	60.3	42.9
% Ratio of long term liabilities* to total net assets *Measures the extent to which an institution is funded by long term debt*	24.0	24.7	21.0	18.8	20.6
Indicators of liquidity and solvency					
Ratio of liquid assets to current liabilities *Extent to which current liabilities could be met from cash and liquid investments*	0.94	0.99	0.95	0.75	0.64
Days ratio of liquid assets to total expenditure** *Days that total expenditure could be met from cash and liquid investments*	97.6	105.9	98.4	73.5	64.6
Ratio of current assets to current liabilities *Extent to which current liabilities could be met from current assets*	1.48	1.41	1.45	1.54	1.45
Days of total income*** represented by debtors *Days of total income (excluding Funding body grants) represented by debtors*	50.0	40.7	45.9	51.1	47.3

* Excluding FRS17 pension liability/reserve
** Excluding depreciation and FRS17 expenditure
*** Excluding FRS17 income

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