



Financial Statements

for the year ended 31 July 2011



CHANCELLOR

Baroness Floella Benjamin, OBE HonDLitt *Exon*

PRO-CHANCELLORS

K Russell Seal, BA HonDSc *Keele*

Peter Lacey, BSc BArch *Bath RIBA*

Richard M P Hughes (Finance), MA *Oxon FCA*

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DEPUTY VICE-CHANCELLORS

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DIRECTOR OF FINANCE AND DEPUTY REGISTRAR

Jeremy C Lindley, BSoc Sci *Bham ACA*

DIRECTOR OF ACADEMIC SERVICES

Michele I Shoebridge, BA (Hons), PG Dip.Lib MA

BANKERS

National Westminster Bank plc	Barclays Bank plc
Stocker Road	3 Bedford Street
Exeter	Exeter
EX4 4RH	EX1 1LX

INVESTMENT MANAGERS

From 9 November 2011	Until 8 November 2011
J P Morgan International Bank Ltd	Investec Wealth & Investment Limited (formerly Rensburg Sheppards)
125 London Wall	2 Gresham Street
London	London
EC2Y 5AJ	EC2V 7QN

EXTERNAL AUDITORS

KPMG LLP
Plym House
3 Longbridge Road
Plymouth
PL6 8LT

INTERNAL AUDITORS

Mazars LLP
Clifton Down House
Clifton Down
Bristol
BS8 4AN

FOREWORD

As you read these financial statements you will see that 2010/11 has been another very successful year for the University of Exeter. These highlights show that we have come a long way in a relatively short period of time in terms of growth, financial performance and recognition amongst our peers.

At the same time our students achieve ever higher entry tariffs, our drop-out rates are low, student satisfaction remains consistently 'top ten' and our research base is rapidly growing in both size and international reputation.

This performance reflects the rewards from the strategic objectives undertaken and implemented by the University and its staff over a number of years now. These initiatives are all aligned with our aim to be a world-class, research-led University which retains its student-focused philosophy and drive for academic excellence. We have reorganised our Colleges; internationalised our student base and our research; redirected resources to support our faculty and students; continued to invest in top academics and to support their research, their teaching and the wider transfer of knowledge.

However, this only tells a part of the story. The coming years mark a period of significant change for both the University and the sector as a whole. As the future of Higher Education and the new funding regime becomes clearer we now recognise that our past investments and achievements have positioned us well to benefit from these changes. But our efforts must continue.

Over several years we have invested heavily in our infrastructure – at our campuses in Exeter and at our Tremough Campus in Cornwall – and this continues. You will read more about these ongoing investments –

Total income up 8% to £246 million – up 50% since 2007

International student numbers reach 3,450 – up 156% since 2007. Total student numbers reach 17,950 – up 34% since 2007

Non-HEFCE research income up 130% since 2007

£62 million direct capital investment in year – £372 million on campus investment since 2006

Historic cost operating surplus £14 million – increasing every year from £0.8 million in 2007

Net assets up 18% in year to £473 million

in research and teaching facilities, student facilities, accommodation and the overall 'Exeter Experience' – in these financial statements. However, through strong cash flows from operations, success in achieving capital grants and partnering with external organisations for investment in non-core services, these significant investments have been achieved with an increase in net debt of less than £19 million. Our investment in new and upgraded facilities will continue.

Our reputation and achievement of high academic standards, at entry and over an academic career, mean that we are well positioned for this new era in Higher Education funding. With rising personal contributions to their education comes a rise in student expectations about the quality and support for research and teaching, modern facilities and technologies, and the quality of the overall student experience both academic and social.

As Funding Council monies are reduced and tuition income increases we must ensure this income is directed towards enhanced academic quality and so must continue our efforts in securing alternative sources of income and in growing our research income.

I wish to thank all of the management, staff and students of the University for their own contribution to the undoubted successes achieved. We can look forward with anticipation to further challenges ahead but also with great confidence.



K Russell Seal,
Chair of Council



The **Forum** project is an exciting new development for the heart of the Streatham Campus, creating an inspirational mix of outside and inside space that will deliver a new Student Services Centre, retail and catering outlets, a refurbished Library, new technology-rich learning space, a 400-seat lecture theatre and a new University reception.

CONTENTS

	Page
Business Review	2
Public Benefit Statement	10
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Corporate Governance and Internal Control Statement	13
Membership of the Council	18
Responsibilities of the Council of the University	20
<hr/>	
Independent Auditor's Report	22
Statement of Principal Accounting Policies	24
Consolidated Income and Expenditure Account	30
Statement of Consolidated Total Recognised Gains and Losses	32
Balance Sheets	33
Consolidated Cash Flow Statement	34
<hr/>	
Notes to the Accounts	35

The following do not form part of the Statutory Financial Statements:

Five Year Summary Accounts	73
Financial Statistics	75
Detailed Movements in Reserves	76

REVIEW
OF YEAR

GOVERNANCE

FINANCIAL STATEMENTS

NOTES TO
ACCOUNTS

FURTHER ANALYSIS

OPERATING REVIEW

The University has continued to improve its performance through a year that has seen uncertainty and apprehension within the higher education sector and in the wider national and international economies. During the year the University retained its focus on improving its core activities of delivering excellent research and an outstanding student experience within a financially sustainable business model.

The growth of the University continued unabated during the year with Dun and Bradstreet reporting the University as the 23rd fastest growing organisation in the United Kingdom and the 62nd across Europe in the period since 2007. The University's total income has grown by 50% since 2007 and staff numbers have risen from 2,500 to over 3,000 with staff recruitment still ongoing. Capital investment on the campuses will have led to around £372 million of new infrastructure since 2006, including £176 million invested by partnering with University Partnership Programme and INTO University Partnerships Limited. Net assets have increased from £414 million in July 2007 to £473 million this year. The University will continue to grow over the coming years with additional income and continued investment in infrastructure to deliver enhancements to the student experience and continued development of excellent world leading research.

The change in the policy environment of the higher education sector has provided an uncertain backdrop for the year to 31 July 2011. These policy changes now have greater clarity following the publication by the Government of the White Paper "Students at the Heart of the System" and several associated consultation documents. The University has paid close attention to Government and other regulators' pronouncements on these. Our analysis is that the proposed changes will strengthen the University and provide new opportunities to improve our research and educational activities. The regulatory changes will also bring some challenges which will need to be resolved, most notably in relation to our agenda to widen participation and access to higher education for excellent students from lower socio economic groups. Overall, despite this potential issue, the University believes it is well placed to benefit from the changes.

Even with this uncertainty, in the year the University has continued to drive forward with its core agenda of enhancing its educational and research capabilities. Notwithstanding the ongoing major capital infrastructure works at our Exeter and Cornwall campuses the University has maintained its achievement of always finishing as a top 10 University in the National Student Survey. The University is grateful for the hard work of its entire staff in mitigating the impact of this huge capital investment on our students and we are grateful for the forbearance of our students during this period of significant investment. The majority of the University's capital programme will end in the summer of 2012. The £18.6 million Business School extension work; the delivery of the £43.3 million INTO University of Exeter teaching and residential buildings; the £24.9 million refurbishment of the Biosciences Geoffrey Pope building; and the delivery of the first £87 million stage of student residential buildings via University Partnership Programme, were all concluded in 2010/11.

These improvements, and the University's historic drive for academic excellence in its mission, led to a further increase in the student entry tariff for the academic year commencing in September 2010 of 5% to 459. The University continued to be one of the most popular universities in the United Kingdom with some six applications per place in 2010/11. We are especially pleased with the increased employability of our students in these difficult economic times: 73% of our students are now in graduate level employment or training six months after graduation, a 3% improvement on last year despite the tough economic conditions. It is not surprising given these improvements that the University remains a leader in student academic attainment and with some of the lowest student drop-out rates in the higher education sector.

Research has continued to thrive and grow at the University over the year, research income having increased by £8.6 million to £46.3 million; £64.9 million if the Funding Council research funding is included. The University is continuing its investment in Science research with an approved investment of £18 million through the Science and Research and Knowledge Transfer Strategies, of which £3.6 million was undertaken this year.

BUILDING ON SUCCESS, INVESTING FOR THE FUTURE



The purpose-built **Environment and Sustainability Institute** being constructed on our Tremough, Cornwall Campus will bring together state-of-the-art resources, leading academics and researchers to lead cutting-edge and interdisciplinary research into the consequences of environmental change and the mitigation and management of its effects.



'**The Exchange**', representing further investment in world-class learning, teaching and research facilities at the Tremough Campus, will help the University and its partner, University College Falmouth, to achieve their shared vision to create a world-class campus for Cornwall.

The University approved an additional plan to invest in research growth in Arts, Humanities and Social Sciences during the year. Investment in research is targeted at promoting excellent research in key inter-disciplinary themes whilst being mindful of the 2014 Research Excellence Framework. Investment to increase the number of postgraduate research students at the University has progressed well with the University now having, on average, 2.1 students per academic member of staff. This improvement in part explains the University's success in being accredited as a Doctoral Training Centre for the Economic and Social Research Council in partnership with the Universities of Bath and Bristol.

In order to improve the quality of the student experience and to improve the research base the University has employed a net additional 153 staff in 2010/11, of which 115 are academic staff (including research staff and teaching fellows). The University will continue its staff recruitment exercise over the coming years.

In addition to successes in core areas of research and education the University has also achieved success in other areas:

- The University is delighted that Students' Guild (a separate legal entity to the University) won second best students' union in the United Kingdom for 2010/11 in the National Union of Students awards ceremony; they came first in 2009/10.
- The University Sports Office and the Athletics Union achieved eighth place in the British Universities and Colleges Sports league, a competition against 161 other universities and colleges, an improvement on its tenth position in the league in 2009/10.
- Both the University's Communications and the Development and Alumni Relations teams won first prize in the Times Higher Education's Leadership and Management Awards. In addition the Development and Alumni team achieved their target of raising £23 million from donations and philanthropic giving a year early.
- The University gained a "First" in the 2011 People and Planet Green League award along with 36 other universities. The University was also delighted to win the Green Gown award for the One Planet MBA offered by the Business School. The judges described the course as "a unique programme designed to develop a new generation of managers and leaders who will transform business and deliver more sustainable strategies." Other significant environmental successes include a 60% increase in the number of bicycles being used following new cycle parking and incentive schemes. Bus use has also increased by 40% following work with Devon County Council and Stagecoach.

The performance of the University in 2010/11 has led to a continued rise of the University in the national and international league tables. The University has risen to eleventh in the *Guardian* League Table, tenth in the *Times* and ninth in the *Sunday Times* league tables. In addition the University has risen to 156th in the *Times Higher World* League table, up 28 places from 2010. This puts the University in the top 1% of universities in the World and on target to be a top 100 World university by 2015.

The University, aware of the changing nature of the environment in which it operates, started an initiative in the year to build on the £10 million saved through its earlier "Creating Value" initiative. The University is planning to create additional earnings and further efficiencies of another £10 million over the four years to 2015. This will be achieved by targeting new surplus generating activities, savings in procurement and process efficiencies.

FINANCIAL OVERVIEW

These financial statements of the University of Exeter for the year ended 31 July 2011 incorporate the University's subsidiaries and joint ventures. The summarised historic cost income and expenditure performance of the University over the last five years is set out below:

Year ended 31 July:	2011	2010	2009	2008	2007
	£m	£m	£m	£m	£m
Funding Council income	74.8	71.6	67.7	63.5	57.9
Teaching income	81.3	74.2	60.0	45.5	35.2
Research income	46.3	37.7	33.3	24.5	20.1
Other income	43.8	43.7	42.2	45.2	39.6
Total income	246.2	227.2	203.2	178.7	152.8
Expenditure	(233.1)	(219.6)	(195.6)	(170.9)	(151.2)
Share of joint venture operating results	0.9	0.8	0.2	(0.9)	(0.8)
Operating surplus	14.0	8.4	7.8	6.9	0.8
Exceptional items	–	10.9	0.5	(5.1)	5.3
Transfer from endowment funds	0.6	0.3	0.4	0.2	–
Historical cost surplus for the year	14.6	19.6	8.7	2.0	6.1

The University's historic cost operating surplus, before exceptional items and endowment transfers, has risen from £8.4 million to £14.0 million, representing some 5.7% (3.7% in 2009/10) of total income. The operating surplus is reported after a £3.1 million (£2.6 million in 2009/10) historic cost impairment of the Geoffrey Pope building. Ignoring this non-recurrent impairment increases the historic cost operating surplus to some 6.9% (4.8% in 2009/10) of total income. This is set against a background of a significant reduction in the future level of Funding Council capital grants.

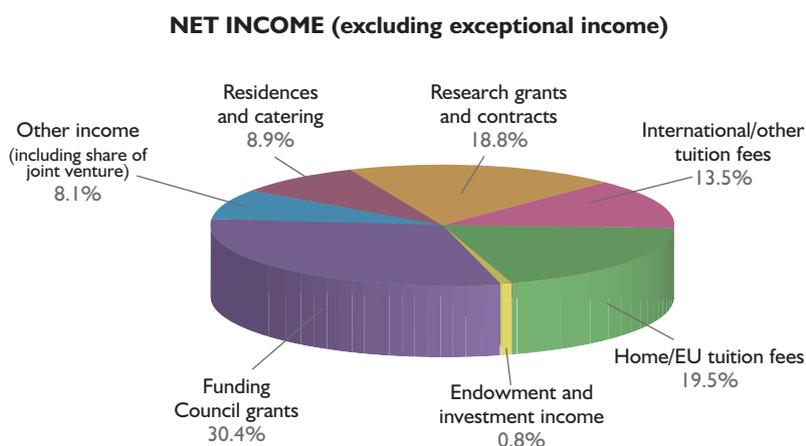
During the year the University has maintained its financial focus on:

- Growing earnings from educational activities.
- Growing research income on a sustainable basis.
- Managing the financial and cash impacts of the infrastructure and other investments.
- Continuing the drive to improve efficiency.

The University is now actively searching for other efficiency savings and earnings generating activities which it could exploit to support improvements in its educational and research activities.

INCOME

Total University income has grown by 8.4% in the year to £246.2 million. This income growth is split between Funding Council income growth of 4.4% and growth of 10.1% in non-Funding Council incomes. Overall the University received some 30% (31% in 2009/10) of its income from the Funding Council, in 2006/07 the Funding Council constituted some 38% of University incomes. This trend of falling Funding Council revenues as a proportion of total income will continue into the future with the Government reducing its support for teaching, by 2015/16 Funding Council income is forecast to be under 20% of University revenues.



Funding Council grants have remained largely static in the year with the exception of the teaching grant which rose by 5.6% due to increases in student numbers in Cornwall of 10%.

The single largest business activity of the University is tuition fees and educational contracts with a total teaching income of some £81.3 million. Overall this has grown by some 9.5% from 2009/10 with particular increases of 12.2% in postgraduate income, 7.0% in undergraduate and 12.5% in international student fees. This growth is largely due to increases in student numbers of 9% and 3% with respect to international and home/EU numbers respectively.

The increase in postgraduate student numbers is partially as a consequence of the University's investment to encourage greater numbers of postgraduate research students.

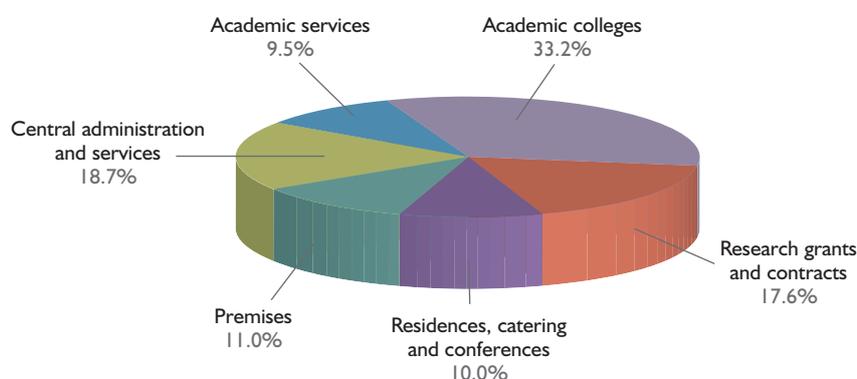
Research grants and contracts grew by 22.8% in the year to £46.3 million. It reflects the University's intention to promote excellent world-leading research and to increase the scale of research activity at the University.

The level and excellence of research have been actively promoted by an in-year investment of £3.6 million in the Science and Research and Knowledge Transfer Strategies. This was further enhanced in the year by a new strategy to further promote research in humanities and social sciences. The University is on target to grow its research income to £60 million annually (excluding the Funding Council's research funding) by 31 July 2015. The University continued to invest in high calibre, research active staff in preparation for the 2014 Research Excellence Framework.

Other income continued to be dominated by residences, catering and conferences, although this declined by 0.1% to £21.8 million as some historic student residences are now operated by our partner University Partnership Programme Limited, who receive the student rental income. The University continued to partner with reputable third party organisations to deliver non-core activities so allowing the University to focus its investment in educational and research activities.

EXPENDITURE

Overall University expenditure increased by 6.1% to £236.5 million in the year. Of this £18.9 million (8.0% of total expenditure) is depreciation which increased by 20.8% from 2009/10 as capital assets are constructed and brought into use. No further impairment of the Geoffrey Pope building is expected, some £5.7 million of impairment having been charged over the past two years on the redevelopment of this building.

EXPENDITURE (excluding exceptional expenditure)

Interest payable at £4.9 million for the year is a reduction of 11.6% on the previous year. Ignoring the impact of accounting adjustments related to the University's local pensions scheme, the Exeter Retirement Benefits Scheme, bank interest payable remained static year-on-year at around £4.9 million. This reflects the fact that the University's large capital infrastructure investment to date is predominantly funded by operating cash.

Excluding depreciation, impairment and interest payable, the University's staff costs and other expenditure increased by only 5.4% to £212.7 million. These costs represent some 86.4% of University income, down from 88.8% in 2009/10. Overall staff costs account for some 52.0% of the University's income, a reduction of 0.4% from 2009/10.

Even though this ratio of payroll cost to income fell in the year, the University increased expenditure on payroll by 7.5% and recruited some 153 additional staff of which 115 are in research and educational positions. Other expenditure increased by 2.3% in the year. Given the current exceptional economic conditions the University paid only a 0.4% general cost of living pay increase to staff in the year.

CASH FLOW

The University generated some £29.7 million in operating cash during the year, an increase of £15.1 million on the £14.6 million generated in 2009/10. This cash part funded the University's large capital programme which required £59.1 million of cash over the twelve months. Other cash used to fund the capital programme included £14.9 million of capital grants, additional bank debt of £10.0 million and an £8.8 million element of the cash and short term investments brought forward from 2009/10.

Overall the University's net debt increased by 49.8% in the year to £56.6 million. Bank debt rose by £10.0 million to £102.7 million and was offset by cash and short term investment holdings at 31 July 2011 of £46.2 million. The cash inflow from operating activities was assisted in the year by favourable working capital movements of £4.6 million; these should not be expected to recur. Ignoring these beneficial working capital improvements the University still generated a healthy £25.1 million of operating cash inflows.

Over £420 million of infrastructure investment on the University's campuses will be fully completed by 31 July 2012. The investment in infrastructure projects on the Exeter campuses, including the tranche 1 programme, will then exceed £370 million with a further £44 million being invested on the Cornwall Campus. An additional £100 million tranche 2 infrastructure investment programme also commenced in the year at the Exeter campuses; this will deliver much in the way of improved internet connectivity and teaching and learning space enhancements.

The University closely plans and monitors the cash requirements of these large infrastructure projects. Forecasting and sensitivity analysis indicates the University has the capacity to deliver these tranche 1 and tranche 2 infrastructure investments whilst complying with Funding Council financial memorandum requirements and bank covenants.

BALANCE SHEET

The University's net assets have increased considerably in the year to £472.6 million from £398.3 million, an increase of 18.7%. One driver for the increase in net assets is the investment the University has made in infrastructure, both in capital expenditure and in higher levels of maintenance, over the last five years. This has been achieved without requiring commensurate levels of additional debt. This investment is reflected both with the £62.1 million investment in tangible fixed assets this year and also in a £51.4 million uplift in the value of tangible fixed assets arising from the five yearly revaluation process carried out by the professional valuers Jones Lang LaSalle.

During the year the University has completed the refurbishment of the Geoffrey Pope building (£24.9 million) and the refurbishment and extension of the Business School (£18.6 million). At the Exeter campuses work is ongoing with the Sir Henry Wellcome Mood Disorders Centre (£1.2 million in 2010/11) and the Forum project, to revolutionise the student experience at the main Streatham Campus (£25.8 million in 2010/11), these are planned to complete in 2011/12. In addition the University has just started work on the development of the £26 million Wellcome Wolfson Centre for Translational Medicine in association with the Royal Devon and Exeter NHS Foundation Trust and the Peninsula College of Medicine and Dentistry (PCMD). At the University's Cornwall Campus work is underway on the Environment and Sustainability Institute (£30.8 million) and the Exchange (£8.6 million) both of which are planned to complete before September 2012.

Net current assets fell in the year as cash and short term investment balances were allocated to the funding of the capital programme and as short term creditors increased to pay for the construction works. The reduction in net current assets was expected and the University has undrawn bank facilities of £62.3 million which, together with approved capital grants, more than covers all the current capital commitments.

KEY FINANCIAL PERFORMANCE INDICATORS

In addition to the income and expenditure account, balance sheet and cash flow monitoring the University regularly monitors its financial strength against six key performance indicators:

Key financial performance indicator	Actual as at 31 July 2011	Early warning trigger	Maximum / minimum level
Payroll costs as a percentage of total income	52%	55%	57%
Cash and near cash	**£29.8 million	£15.0 million	£15.0 million
Current ratio (including undrawn loan facility)	2.3	1.2	1.0
Net liquidity days	77	50	40
Loans as a percentage of total income	42%	60%	65%
Compliance with bank covenants	Full compliance	Full compliance	Full compliance

** University only. Cash and near cash £45.4 million including PCMD and subsidiary cash balances.

The University is operating within its key financial indicators and future forecasting indicates that it will not breach these. Overall the University's finances are robust and strong even with the liquidity issues imposed by the substantial infrastructure investment that is currently underway.

The University Council approved a new Finance Strategy in December 2010 which will build on the success achieved over the last few years. Forecasting included in the Strategy and since reveal that for the next four years the University's finances will remain strong and resilient. The regulatory changes proposed by the Government in its White Paper "Students at the Heart of the System" introduce opportunities for the University which are currently being explored and considered.

The University Council is working with the Students' Guild at the University to achieve the appropriate balance of future investment and to build on the current financial resilience of the Institution. Overall the University is confident and positive about the future but is not complacent and remains watchful of the unfolding changes in higher education and the national and World economies.



J C Lindley
Director of Finance and Deputy Registrar

28 November 2011

PUBLIC BENEFIT STATEMENT

OUR MISSION

We transform lives through the power of higher education. A leading international university, we undertake ground-breaking research and deliver a world-class student experience in a campus environment of outstanding natural beauty. 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 VALUES

We agreed our University values through a period of consultation which involved staff, students and alumni. These are the qualities most important to us at the University of Exeter and give focus to our everyday endeavours. We aim to give all at Exeter the opportunity to develop, demonstrate and celebrate our values.



As University of Exeter staff, students and alumni, we value:

Excellence

We aim to realise our potential and celebrate our achievements.

Creativity

Bold and enterprising, we support innovation.

Personal Leadership

We have a clear sense of direction and seize opportunities to be forward thinking.

Inclusivity

We promote and celebrate diversity, fostering equal opportunities and personal dignity.

Ambition

We constantly challenge ourselves to do better, pursuing goals with energy and enthusiasm.

Sustainability

Through education and research we are aware of the ecological limits of the planet and promote the careful use of resources.

Truth

We are dedicated to upholding the highest levels of integrity and the ethical pursuit of knowledge.

Adaptability

We are resilient and receptive to change and foster a positive outlook.

Working Together

Through a communicative and trusting environment, we nurture Exeter's unique and invaluable community spirit.

Partnership

We work collaboratively to create alliances across sectors and beyond borders

SPECIFIC ACHIEVEMENTS FOR 2010/11

The University delivers public benefit in a wide variety of ways, but principally through its teaching, research and 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 Aim Higher programme in the South West, hosting residential summer schools and participating in innovative new outreach programmes.

In 2010/11 the University set aside £4.8 million – nearly a quarter of its Home/EU additional fee income (based on the fee charged above the standard HEFCE rate) – to fund outreach activities and means-tested bursaries for undergraduate students from poorer backgrounds.

This provision represented 5.9% 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 total of 2,922 students received means tested support in 2010/11, representing 30% of Home/EU undergraduate students.

Outreach activity sees trained Exeter student ambassadors and staff going out to schools to help raise the aspirations of students from under-represented groups and to improve their awareness of higher education. Students from target schools are invited to attend a range of on-campus activities covering a variety of subject areas throughout the year. The University is also engaged in two innovative fair access 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 can 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 eight 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 to further increase its activities in this area. The University recognises its role as a vehicle for 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 in recent years having trebled the size of its on-campus Innovation Centre, which provides business units for small high tech companies, is now 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.

PUBLIC BENEFIT STATEMENT

The University is in the midst of a five year research investment plan worth £230 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 delivered more than £400 million worth of economic benefit in 2010/11. 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 direct UK Government funding which now represents less than 31 per cent of its income. 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, which is due to open in spring 2012. The capital programme has provided a much-needed boost for the construction sector at a time of economic uncertainty.

Overall the University supports more than 5,000 jobs and is looking to increase its academic staff numbers to around 1,000 in 2012. This is designed to improve the staff/student ratio.

In 2011 student numbers grew to 17,950 of which 4,615 were postgraduates. Some 68% came from State Schools and 32% from Public Schools. International admissions continued to be strong, which reflects the University's International Strategy and the strong performance in INTO University of Exeter LLP. Students are active in their local communities providing thousands of hours of volunteering a year which is aimed at helping local elderly, disadvantaged 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 10th in 2012. For the second 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 156th position, making it one of the top 1% of universities in the world. Exeter's target is to make it into the top 100 by 2015.

BUSINESS ENGAGEMENT

The University works on over 1,000 business projects each year including student projects and research or service collaborations. Our links with commercial businesses and other external organisations such as the NHS, local authorities, government agencies and the service sector, now contribute around £25 million to our research, consultancy, innovation and Continuing Professional Development portfolios. Our income from industry was such that we received a significant rise in our grant from the HE Innovation Fund and we were ranked 24th in the UK. We are using this to establish a new Open Innovation Fund to encourage collaboration with industry.

In the region we are linked to many of the main employers such as Flybe, Thomson Reuters, the professional rugby and football clubs and the Met Office. We have helped support the development of the marine renewable energy sector in the region through the PRIMaRE and Wave Hub projects and our new centre for Additive Layer Manufacturing is introducing a new manufacturing technology to South West SMEs. The Business School ran a very successful project *Clear about Carbon* in Cornwall, to develop low carbon literacy and leadership and management skills within public sector procurement and private sector supply chains and the Environment and Sustainability Institute is building research networks with clusters of businesses in Cornwall.

The Business School's Business Leaders Forum continues to grow with over 100 business members. It also runs an Innovation Club. The University was also instrumental in establishing a new network of knowledge based businesses in the City – the Exeter Initiative for Science and Technology (ExIST) which already has over 100 members.

INTRODUCTION

The following statement is provided to enable readers of the Financial Statements of the Group, which comprises of the University and its subsidiaries, 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 and is regulated by Higher Education Funding Council for England on behalf of the Charities Commission under 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, a Council Nominations 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 responsible for reviewing and commenting on the University's governance, internal control and risk management arrangements.

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 Council Nominations Committee** – is responsible for making recommendations to Council in relation to nominations for the posts for Chancellor, Pro-Chancellor and Chair of Council. In addition it makes recommendations in relation to the nominations for external members of Council, nominations to other Council and joint Senate and Council committees and nominations for Trusts associated with the University. It also reviews the criteria for appointments having regard for Council's and the University's; equality and diversity and other policies. The Committee is comprised of five lay members, three of whom are the University's Pro-Chancellors, the Vice-Chancellor and the Senior Deputy Vice-Chancellor.

During the year the Committee conducted an extensive external process to identify and recruit a new Chair of Council at the end of the term of office of Russell Seal on 31 July 2012. This process, led by a Pro-Chancellor of the University, was conducted in accordance with guidelines for public appointments and involved the use of national press advertising including advertisement on the Cabinet Office website, the engagement of independent recruitment consultants and interviews with appropriately qualified candidates. The Committee was pleased with the strength of response and quality of the candidates for this post. On 13 October 2011 Council approved the recommendation of the Committee and confirmed the appointment of Sarah Turvill, from 1 August 2012, as the new Chair of Council and Pro-Chancellor.

- **The Remuneration Committee** – is responsible for setting the remuneration of all senior staff including the Vice-Chancellor's 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.

The University's remuneration strategy, approved by Council, is to provide sustainable remuneration packages that enable us to retain and attract the best available talent, that are competitive against the appropriate market and which encourage and support a high-performance culture in a way that is fair and externally transparent.

It is our policy to set base salary at the median of our competitors and to reward upper quartile performance with upper quartile rewards through a combination of fixed salary and variable rewards paid for achievement of agreed objectives and targets. Performance will be subject to annual review and senior staff will all have the same opportunity for salary progression.

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.

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 financial year ends) 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. The finalised Professorial Salary Plan is presented for approval to the second meeting of the Remuneration Committee. Detailed gender analysis is undertaken to ensure consistency and equality of treatment in the review process. As a result of this year's review, the gender pay gap has been closed to just 3.25%, the lowest figure since monitoring of this kind began in 2006 and well within the tolerance band recommended by the Equality Challenge Unit.

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 professoriate with the aim of securing their long-term commitment to the University.

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 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 in addition to members of VCEG. The Committee determines 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.

2010/11 was another very successful year for the University. Highlights included an operating surplus of £14.6 million (against a target of £7 million); being ranked as the 23rd fastest growing business in the UK (62nd fastest in Europe) by the independent business analysts, Dunn and Bradstreet; appearing in the Top 10 of the *Sunday Times University Guide* for the first time, up eight places from the previous year's position of 17th; rising 28 places to 156th in the *Times Higher World University* rankings; continued improvement in the quality of the

undergraduates with Exeter now placed 6th in terms of AAB student attainment; the new Business School Building One opening on time and within budget; maintaining our Top 10 position in the National Student Survey, coming 8th out of 118 institutions; and exceeding by £2.5 million, the campaign target of £23 million for the "Creating a World-Class University Together" appeal.

For the third year in a row and at their own request, the base salaries of VCEG members were frozen. Whilst Remuneration Committee again agreed to accede to this request, the Committee is mindful of the need to ensure the long term retention of key staff and is anxious to maintain the market competitiveness of senior officers' salaries. As reported last year, Remuneration Committee decided to increase the bonus opportunity available to VCEG members from 12.5% to 20% of base salary. Whereas performance in 2009/10 resulted in the release of 80% of the available bonus, Remuneration Committee decided that the full 100% bonus opportunity should be open to members of VCEG and, indeed, to all members of the other incentive schemes referred to above. The actual payments made to each individual were determined by reference to their performance against their agreed objectives.

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

Council met five times during the 2010/11 academic year and in addition was supported by three Council committees, whose decisions were formally reported to Council. These committees were the Audit Committee, Remuneration Committee, and Council 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 Council Nominations Committees.

Concerning its strategic and developmental responsibilities, Council receives recommendations and advice from the Vice-Chancellor's Executive Group and the Senior Management Group, including a recommendation on the annual revenue budget, and monitoring reports on performance against the approved budget. Two strategic groups, led by Council members, being the Risk Governance Committee and the Infrastructure Strategy Group, also supported the Council in much of its detailed work. From 2011/12 the Risk Governance Committee will stand down and risk-related objectives will be coordinated and delivered by the Vice-Chancellor's Executive Group.

The University's business is 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 also has formal standing committees in the areas of Health and Safety, Ethics, 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 2011 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 Chair 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 reports regularly 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 THE COUNCIL

Members of Council

- 1) Mr P Lacey: Pro-Chancellor
- 2) Professor Sir S M Smith: Vice-Chancellor and Chief Executive
- 3) Mr K R Seal: Chair and Pro-Chancellor
- 4) Professor N Armstrong: Deputy Vice-Chancellor (International)
- 5) Mr R M P Hughes: Chair of Audit Committee and Pro-Chancellor (Finance)
- 8) Professor J M Kay: Deputy Vice-Chancellor (Education)
- 9) Mr M Choules: Lord Mayor of Exeter
- 11) Mr N Bull: Corporate Finance Banking
- 13) Professor S Banducci: Associate Dean of Education*
- 14) Ms J Hargadon: Lay member of Council
- 15) Sir Robin Nicholson: Former Professor of Metallurgy, Chief Scientific Adviser to the Cabinet Office
- 16) Mr C J Allwood: Managing Director of the Telegraph Group
- 17) Ms B Rigg: Partner, Bond Pearce LLP
- 18) Mr M Jordan: Management Consultant
- 19) Lady Studholme: Lay member of Council
- 20) Mrs S Buck: Director, BSW Consulting
- 22) Professor S J Rippon: College of Humanities
- 24) Mr N Davies: President of Students' Guild*

In attendance:

- 6) Mr D Allen OBE: Registrar and Deputy Chief Executive
- 7) Ms M Shoebridge: Director of Academic Services
- 10) Mr J C Lindley: Director of Finance and Deputy Registrar
- 21) Mr S Cooper: Director of Human Resources

Members of Council 2011-12 not pictured:

Dame S Leather OBE: Chair of the Charity Commission
Professor K E Evans: Dean, College of Engineering, Mathematics and Physical Sciences

Members of Council whose appointment ended in 2010/11:

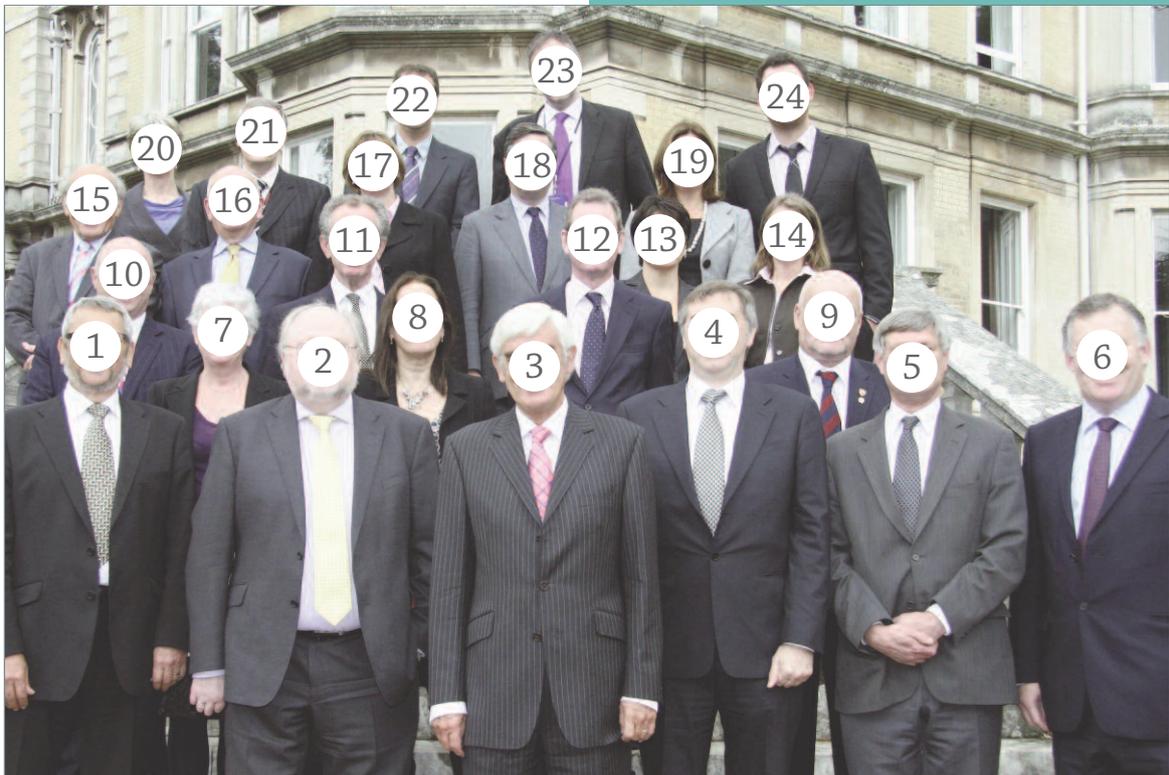
Pictured and in attendance:

- 12) Professor M Overton: Deputy Vice-Chancellor (External Affairs) – retired 13 October 2010
- 23) Professor N Talbot: Deputy Vice-Chancellor (Research and Knowledge Transfer) – retired 13 October 2010

Not pictured:

Professor R L Lamming: ex Dean, University of Exeter Business School – resigned 31 July 2011
Mr J Beddall: President of Students' Guild – appointed from 1 August 2010 to 31 July 2011

*Appointed 1 August 2011



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, 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 2010/11 financial statements to be prepared, the Council has ensured through its senior officers and Audit Committee that:

- suitable accounting policies are selected and applied consistently. The Council notes that legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions;
- 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; and
- 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, through the Director of Finance, ensures that the publication of the Financial Statements, including access via the University's website, is consistent with these audited financial statements; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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, Deans of Colleges and directors of professional services;
- 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 13 to 21 were approved by Council on 28 November 2011 and signed on its behalf by:



K R Seal
Chair of Council



D J Allen
Registrar and Deputy Chief Executive

INDEPENDENT AUDITOR'S 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 2011 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council of the University of Exeter ("Council"), in accordance with the Charters and Statutes of the institution. 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

As explained more fully in the Responsibilities of the Council of the University Statement set out on pages 20 and 21, the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

This includes an assessment of: whether the accounting policies are appropriate to the group's and University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Business Review to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2011 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

OPINION ON OTHER MATTERS PRESCRIBED IN THE HEFCE AUDIT CODE OF PRACTICE ISSUED UNDER THE FURTHER AND HIGHER EDUCATION ACT 1992

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes;
- income has been applied in accordance with the University's Statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

MATTERS ON WHICH WE ARE REQUIRED
TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the University and group.

E Holiday

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

28 November 2011

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.

2. GOING CONCERN

The University's activities, together with the factors likely to affect its future development and performance, are set out in the Business Review on pages 2 to 9. The financial position of the University, its cash flows and liquidity position are described in the Financial Overview section of that review.

The Council has reviewed a detailed performance budget and cash flow which indicates that the University and its subsidiaries will be able to operate within the level of its current facilities for at least twelve months from the date of signing these financial statements and will be able to meet its cash commitments and debt repayments as they fall due.

Based on this review, the Council has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Accordingly they continue to adopt the going concern basis in preparing these financial statements.

3. BASIS OF CONSOLIDATION

The results of the University's subsidiary undertakings and undertakings that it has a controlling interest in have been consolidated in the financial statements and details of these are provided in note 13. The University's share of the results in its joint ventures has been consolidated in the financial statements and details of these and the basis of consolidation are provided in note 14.

The activities of the University of Exeter Students' 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 32.

4. 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 33 to 36.

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.

5. 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.

6. 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 30.

7. 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.

8. 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.

9. 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.

10. 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.

11. 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.

12. 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 remaining (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).

13. 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.

14. HERITAGE ASSETS

The group holds at the Bill Douglas Centre for the History of Cinema and Popular Culture one of the largest public collections of books, prints, artefacts and ephemera relating to the history and pre-history of cinema. This centre contains both a public museum and an academic research centre.

The collection contains many irreplaceable originals to which no reliable cost or value can be attributed. As a result, no value is reported for these assets in the group's Balance Sheet. Any costs of maintaining and displaying the collection are reported in the Income and Expenditure Account in the year that it is incurred.

15. 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.

16. 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.

17. 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.

18. 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.

19. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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



UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2011

	Note	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
INCOME			
Funding body grants	1	74,815	71,631
Tuition fees and education contracts	2	81,261	74,181
Research grants and contracts	3	46,327	37,728
Other income (incl. share of joint ventures)	4	54,784	53,822
Endowment and investment income	5	1,939	1,572
Total income		259,126	238,934
Less: Share of income from joint ventures	14	(12,956)	(11,720)
Net Income		246,170	227,214
EXPENDITURE			
Staff costs	6	127,957	118,988
Other operating expenses	7	84,739	82,828
Depreciation	8	15,803	13,106
Impairment of buildings	12	3,121	2,559
		18,924	15,665
Interest payable	9	4,883	5,522
Total expenditure		236,503	223,003
Operating surplus		9,667	4,211
Share of operating surplus in joint ventures	14	869	801
Total operating surplus		10,536	5,012

UNIVERSITY OF EXETER
 CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
 for the year ended 31 July 2011

	Note	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Total operating surplus		10,536	5,012
Exceptional items: continuing operations			
Surplus on disposal of land and buildings	10	–	812
		<hr/>	<hr/>
Surplus on continuing operations		10,536	5,824
Surplus for the year transferred from accumulated income in endowment funds	15/21	640	301
		<hr/>	<hr/>
Surplus for the year	11	11,176	6,125
		<hr/> <hr/>	<hr/> <hr/>

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

		Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
NOTE OF HISTORICAL COST RESULTS			
Surplus for the year		11,176	6,125
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	22	3,380	3,396
Release of previous years property revaluation surpluses on current year disposals and impairments		–	10,121
		<hr/>	<hr/>
Historical cost surplus for the year		14,556	19,642
		<hr/> <hr/>	<hr/> <hr/>

UNIVERSITY OF EXETER
 STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
 for the year ended 31 July 2011

	Note	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Surplus on continuing operations		10,536	5,824
Revaluation gain on tangible assets	22	51,456	–
Revaluation loss on impairment of tangible assets		–	(1,349)
Revaluation gain on fixed asset investments	22	1,094	654
Appreciation of endowment asset investments	15/21	2,160	2,570
New endowments	15/21	1,290	703
Actuarial (loss)/gain on pension scheme	30	(1,024)	7,153
Actuarial gain/(loss) on pension scheme in joint venture		127	(16)
Total recognised gains in the year		<u>65,639</u>	<u>15,539</u>
Reconciliation			
Opening reserves and endowments		290,800	275,261
Total recognised gains for the year		65,639	15,539
Closing reserves and endowments		<u>356,439</u>	<u>290,800</u>

UNIVERSITY OF EXETER
BALANCE SHEETS AS AT 31 JULY 2011

	Notes	Group		University	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Fixed assets					
Tangible assets	12	542,612	447,966	542,577	448,001
Investments	13	10,447	8,891	10,657	10,930
Investments in joint ventures	14	3,147	2,153	–	–
		<u>556,206</u>	<u>459,010</u>	<u>553,234</u>	<u>458,931</u>
Endowment asset investments	15	23,884	21,074	23,884	21,074
Current assets					
Stock		448	428	443	428
Debtors: amounts falling due within one year	16	25,904	29,132	25,791	29,676
Debtors: amounts falling due after more than one year	16	2,000	2,000	2,000	2,000
Investments		26,449	24,138	26,449	24,138
Cash at bank and in hand		19,705	31,102	18,943	30,572
		<u>74,506</u>	<u>86,800</u>	<u>73,626</u>	<u>86,814</u>
Creditors: amounts falling due within one year	17	(63,623)	(58,819)	(62,641)	(58,632)
Net current assets		<u>10,883</u>	<u>27,981</u>	<u>10,985</u>	<u>28,182</u>
Total assets less current liabilities		<u>590,973</u>	<u>508,065</u>	<u>588,103</u>	<u>508,187</u>
Creditors: amounts falling due after more than one year					
	18	(105,721)	(95,755)	(105,721)	(97,584)
Provisions for liabilities	19	(339)	(883)	(339)	(883)
Total net assets excluding net pension liability		<u>484,913</u>	<u>411,427</u>	<u>482,043</u>	<u>409,720</u>
Net pension liability	30	(12,361)	(13,088)	(12,361)	(13,088)
Total net assets including net pension liability		<u>472,552</u>	<u>398,339</u>	<u>469,682</u>	<u>396,632</u>
Deferred capital grants					
	20	116,113	107,539	116,113	107,539
Endowments					
Expendable	21	6,318	5,314	6,318	5,314
Permanent	21	17,566	15,760	17,566	15,760
		<u>23,884</u>	<u>21,074</u>	<u>23,884</u>	<u>21,074</u>
Reserves					
Income and expenditure reserve (excl. Pension reserve)		80,195	67,263	80,409	68,596
Pension reserve		(12,361)	(13,088)	(12,361)	(13,088)
Income and expenditure reserve (incl. Pension reserve)	23	67,834	54,175	68,048	55,508
Revaluation reserve	22	264,721	215,551	261,637	212,511
		<u>332,555</u>	<u>269,726</u>	<u>329,685</u>	<u>268,019</u>
Total funds		<u>472,552</u>	<u>398,339</u>	<u>469,682</u>	<u>396,632</u>

The financial statements on pages 24 to 72 were approved by Council on 28 November 2011 and signed on its behalf by:

Professor Sir S Smith
Vice-Chancellor and Chief Executive

SS-11

J C Lindley
Director of Finance and Deputy Registrar

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UNIVERSITY OF EXETER
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2011

	Note	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Cash inflow from operating activities	24	29,714	14,598
Returns on investments and servicing of finance	25	(4,148)	(4,241)
Capital expenditure and financial investment	26	(44,379)	(8,845)
Management of liquid resources	27	(2,311)	6,635
Financing	28	9,992	(454)
(Decrease)/increase in cash in the year	29	(11,132)	7,693
Reconciliation of net cash flow to movement in net debt			
		2011 £'000	2010 £'000
(Decrease)/increase in cash in the year	29	(11,132)	7,693
Cash (inflow) from new secured loans	28	(10,000)	–
Cash outflow from repayment of loans	28	8	454
Cash outflow/(inflow) from liquid resources	27	2,311	(6,635)
Movement in net debt in the year		(18,813)	1,512
Net debt at 1 August		(37,751)	(39,263)
Net debt at 31 July	29	(56,564)	(37,751)

NOTE 1 – FUNDING BODY GRANTS

	Year Ended 31 July 2011			Year Ended
	HEFCE £'000	TDA £'000	TOTAL £'000	31 July 2010 TOTAL £'000
Recurrent teaching grant	46,007	3,126	49,133	46,542
Recurrent research grant	18,591	–	18,591	18,220
Specific grants	3,831	360	4,191	3,925
Deferred capital grants released in year (note 20)	2,900	–	2,900	2,944
	<u>71,329</u>	<u>3,486</u>	<u>74,815</u>	<u>71,631</u>

NOTE 2 – TUITION FEES AND EDUCATION CONTRACTS

	Year Ended	Year Ended
	31 July 2011 £'000	31 July 2010 £'000
Home/EU undergraduates: full-time	35,641	33,320
Home/EU undergraduates: part-time	36	71
Home/EU postgraduates: full-time	9,848	9,093
Home/EU postgraduates: part-time	2,566	1,974
International students	30,564	27,726
Non-credit bearing courses and other tuition fees	2,360	1,781
Research Training Support Grants	246	216
	<u>81,261</u>	<u>74,181</u>

NOTE 3 – RESEARCH GRANTS AND CONTRACTS

	Year Ended	Year Ended
	31 July 2011 £'000	31 July 2010 £'000
Research councils	16,968	14,583
UK based charities	5,258	4,375
UK central government, local authorities, health and hospital authorities	12,913	10,599
UK industry, commerce and public corporations	3,721	3,247
European Union governments	4,892	3,064
European Union industry and other bodies	480	232
Other grants and contracts	2,095	1,628
	<u>46,327</u>	<u>37,728</u>

Included above are deferred capital grants released in the year of £1,742,000 (2010: £982,000) (see note 20).

NOTES TO THE ACCOUNTS

NOTE 4 – OTHER INCOME

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Residences, catering and conferences	21,790	21,809
Other services rendered:		
Validation fees	66	178
UK central government, local authorities, health and hospital authorities	448	1,177
Others	1,085	920
Income from health and hospital authorities	2,075	3,764
Other operating income:		
Other external grants	2,234	3,525
Summer schools, fair and degree day income	458	375
Donations and other fundraising	2,305	1,966
Erasmus	883	706
Sports and swimming pools	1,306	1,057
Externally recharged staff time	133	148
Supplies and services to external customers	3,189	1,307
Rental income and room hire	1,047	1,211
Tremough Campus Services	6,255	5,376
INTO University of Exeter LLP	6,701	6,344
Release of deferred capital grants (note 20)	1,583	1,333
Other income	3,226	2,626
	54,784	53,822

NOTE 5 – ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Income from expendable endowments (note 21)	347	335
Income from permanent endowments (note 21)	557	492
Income from short term investments	334	463
Income from fixed asset investments	213	121
Surplus on disposal of fixed asset investments	80	101
Net credit on pension scheme funds (note 30)	341	–
Other interest receivable	67	60
	1,939	1,572

The interest receivable from group undertakings, that are not subsidiaries, in the current year amounted to £900 (2010: £4,000).

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 2011 Number	Year Ended 31 July 2010 Number
Academic staff	656	636
Research staff	367	306
Teaching fellows	149	108
Occasional lecturers	62	69
Support staff	1,713	1,677
Casuals	144	142
Total	3,091	2,938

Staff costs for the above persons:

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Salaries and wages	106,921	98,865
Social security costs	7,642	7,126
Pension costs (note 30)	13,394	12,997
	127,957	118,988

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Emoluments of the Vice-Chancellor and Chief Executive:		
Non-performance related remuneration (including benefits in kind)	265	265
Performance related remuneration	53	27
Pension contributions to USS	51	49
	369	341

Emoluments for senior staff are determined by the Remuneration Committee as set out in the Corporate Governance and Internal Control Statement on page 13.

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 £9,000 (2010: £6,000).

NOTES TO THE ACCOUNTS

NOTE 6 – STAFF COSTS continued

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 2011	Year Ended 31 July 2010
£100,000 – £109,999	17	11
£110,000 – £119,999	2	7
£120,000 – £129,999	3	4
£130,000 – £139,999	4	2
£140,000 – £149,999	1	2
£150,000 – £159,999	3	2
£160,000 – £169,999	3	1
£180,000 – £189,999	1	1
£200,000 – £209,999	1	1
£220,000 – £229,999	1	–
£230,000 – £239,999	–	1
£290,000 – £299,999	–	1
£310,000 – £319,999	1	–

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

NOTE 7 – OTHER OPERATING EXPENSES

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Residences, catering and conferences	11,650	12,202
Rents and rates	1,024	926
Heat, light, water and power	2,529	2,430
Repairs and general maintenance	5,798	6,983
Laboratory equipment and consumables	4,911	4,379
IT hardware, software and licences	1,720	1,533
Other equipment	6,546	5,786
Books and periodicals	2,943	2,813
Non-contract staff and external examiners	5,282	4,526
Administrative costs including postage and telephones	3,025	3,315
Insurances	619	592
Publicity, publications and student recruitment	2,611	2,433
Travel, accommodation, subsistence and hospitality	8,018	6,792
Fellowships, scholarships and prizes	14,847	14,327
Field courses and other student support	4,969	4,453
Legal, professional and consultancy fees	3,817	3,267
Auditor's remuneration	67	64
Auditor's remuneration in respect of non-audit services	21	122
Cornwall Combined Services	2,901	2,856
Other expenses	1,441	3,029
	84,739	82,828

Included within Legal, professional and consultancy fees is the internal audit fee for the University of £82,000 (2010: £98,000).

Included within Auditor's remuneration is the external audit fee for the University of £55,000 (2010: £52,000).

NOTES TO THE ACCOUNTS

NOTE 8 – ANALYSIS OF EXPENDITURE BY ACTIVITY

2010/11

	Staff Costs £'000	Other Operating Expenses £'000	Depreciation/ Impairment £'000	Interest Payable £'000	Total £'000
Academic colleges	61,388	15,217	1,341	–	77,946
Academic services	12,043	7,958	2,189	–	22,190
Administration and central services	18,264	25,397	204	–	43,865
Premises	5,914	10,993	10,098	1,986	28,991
Residences, catering and conferences	5,787	11,650	3,138	2,897	23,472
Research grants and contracts	25,971	13,524	1,954	–	41,449
Other expenses – FRS17 adjustment	(1,410)	–	–	–	(1,410)
	127,957	84,739	18,924	4,883	236,503

The depreciation charge has been funded by:

Deferred capital grants released – buildings (note 20)	3,020
Deferred capital grants released – equipment (note 20)	3,205
Revaluation reserve released (note 22)	3,380
General income	6,198
	15,803

The impairment charge has been funded by:

General income	3,121
	18,924

NOTE 8 – 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 – FRS 17 adjustments	(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	2,814
Deferred capital grants released – equipment	2,445
Revaluation reserve released	3,396
General income	4,451
	13,106

The impairment charge has been funded by:

General income	2,559
	15,665

NOTE 9 – INTEREST PAYABLE

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
On bank loans and overdrafts:		
Repayable wholly or partly in more than five years	4,883	4,840
Net charge on pension scheme funds (note 30)	–	682
	4,883	5,522

NOTES TO THE ACCOUNTS

NOTE 10 – EXCEPTIONAL ITEMS

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
Surplus on disposal of land and buildings	–	812
	<hr/>	<hr/>
	–	812
	<hr/>	<hr/>

On 23 September 2009 the University, with University Partnerships Programme (UPP), Barclays and Royal Bank of Scotland concluded phase 1 of a £133 million 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 £13.8 million – 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.

There were no significant property disposals in the current year. In the prior year four outlying, off-campus residences were sold. The proceeds from these sales were reinvested into the University's strategic aims.

NOTE 11 – SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

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

	Year Ended 31 July 2011 £'000	Year Ended 31 July 2010 £'000
University's surplus for the year on continuing operations	9,606	4,764
Surplus/(deficit) generated by subsidiary undertakings and joint ventures	930	1,060
	<hr/>	<hr/>
Consolidated surplus on continuing operations	10,536	5,824
Surplus for the year transferred from accumulated income in endowment funds	640	301
	<hr/>	<hr/>
Consolidated surplus for the year	11,176	6,125
	<hr/> <hr/>	<hr/> <hr/>

NOTE 12 – TANGIBLE FIXED ASSETS

Group	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000		
Cost or Valuation				
At 1 August 2010	410,052	36,661	34,542	481,255
Additions	54,099	–	8,013	62,112
Disposals	–	–	(253)	(253)
Surplus on revaluation	34,174	693	–	34,867
At 31 July 2011	498,325	37,354	42,302	577,981
Depreciation				
At 1 August 2010	11,571	3,909	17,809	33,289
Charge for the year (note 8)	8,590	1,475	5,738	15,803
Impairment – historic cost (note 8)	3,121	–	–	3,121
Disposals	–	–	(256)	(256)
Eliminated on revaluation	(11,783)	(4,805)	–	(16,588)
At 31 July 2011	11,499	579	23,291	35,369
Net Book Value				
At 31 July 2011	486,826	36,775	19,011	542,612
At 31 July 2010	398,481	32,752	16,733	447,966
Financed by capital grant	79,210	28,158	8,745	116,113
Other	407,616	8,617	10,266	426,499
At 31 July 2011	486,826	36,775	19,011	542,612

- 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 £63.1 million (2010: £66.4 million) 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 2011 freehold and leasehold land and buildings included £49.4 million (2010: £45 million) in respect of buildings under construction.
- d) Included in the cost of freehold land and buildings is £1.1 million (2010: £1.1 million) 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.

NOTES TO THE ACCOUNTS

NOTE 12 – TANGIBLE FIXED ASSETS continued

- e) Long leasehold land and buildings comprise the University owned buildings on the Tremough Campus, which were acquired under a 125 year lease (117 years remaining).
- f) During the current and previous years 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 Jones Lang Lasalle as part of their valuation of the University's land and buildings as discussed below.

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2010	410,157	36,661	34,331	481,149
Additions	54,099	–	7,992	62,091
Disposals	–	–	(253)	(253)
Surplus on revaluation	34,069	693	–	34,76
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2011	498,325	37,354	42,070	577,749
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 August 2010	11,571	3,909	17,668	33,148
Charge for the year	8,590	1,475	5,682	15,747
Impairment – historic cost	3,121	–	–	3,121
Disposals	–	–	(256)	(256)
Eliminated on revaluation	(11,783)	(4,805)	–	(16,588)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2011	11,499	579	23,094	35,172
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 July 2011	486,826	36,775	18,976	542,557
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2010	398,586	32,752	16,663	448,001
	<hr/>	<hr/>	<hr/>	<hr/>

NOTE 12 – TANGIBLE FIXED ASSETS *continued*

As stated in the Statement of Principal Accounting Policies the University adopts the policy of revaluing land and buildings. The external Chartered Surveyors, Messrs. James Lang Lasalle (formerly King Sturge), performed a full valuation as at 31 July 2011 (the previous interim valuation was at 31 July 2009) 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 and University
	£'000
Freehold land and buildings	445,221
Long leasehold land and buildings	36,775

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	243,090	243,195
Long leasehold land and buildings	28,359	28,359

NOTES TO THE ACCOUNTS

NOTE 13 – INVESTMENT

	Group		University	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Fine art collection	1,811	1,511	1,811	1,511
Library special collection	2,728	2,354	2,728	2,354
Listed investments	5,831	4,949	5,831	4,949
Subsidiary undertakings	–	–	210	2,039
Other investments	77	77	77	77
	10,447	8,891	10,657	10,930

The University's fine art collection of paintings, drawings, sculptures, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2011 by external Fine Art Auctioneers and Valuers, Messrs. Bearnès Hampton and Littlewood, on an open market value basis. The amount of the valuation, plus a piano valued separately at £75,000 (2010: £75,000) is included above.

The University's library special collections were also professionally valued during the year ended 31 July 2011 by external Fine Art Auctioneers and Valuers, Messrs. Bearnès Hampton and Littlewood, on an open market value basis. The amount of the valuation is detailed above.

Heritage Assets

The group holds at the Bill Douglas Centre for the History of Cinema and Popular Culture one of the largest public collections of books, prints, artefacts and ephemera relating to the history and pre-history of cinema. The initial collection was donated to the Exeter University Foundation in 1991 but since then other collections have also been donated. No value is reported in the group's balance sheet as no reliable cost or valuation can be attributed to this unique and irreplaceable collection. These assets are managed by the curator and her staff to ensure their cataloguing, safe keeping and preservation and are insured against accidental damage or loss at the University's expense. The museum was opened to the public in 1997 and is open, free of charge, each weekday.

The investment in subsidiary undertakings, as consolidated in these financial statements comprises the following:

Name	Shareholding	Principal business activity
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.

The investment in subsidiary undertakings as at 31 July 2010 also included 2,000,002 ordinary £1 shares in Dartvale Limited, a property development company. This company ceased to operate and was struck off during the year ended 31 July 2011.

NOTE 13 – INVESTMENTS continued

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

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.

The majority of the activities of the Foundation, which was established as a development trust, have been transferred to the University during the year ended 31 July 2009 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 continues to own the collections of The Bill Douglas Centre for the History of Cinema and Popular Culture but no longer actively solicits 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.

NOTE 14 – 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 “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 37 for a detailed analysis of PCMD, representing 100% of the Colleges activities, results, assets and liabilities.

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

The University holds a 100% share of Exeter ISC Limited. Exeter ISC Limited, in turn, 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 INTO Building, Stocker Road, Exeter EX4 4PY.

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 their activities to the University and joint venture partners accordingly.

NOTE 14 – INVESTMENT IN JOINT VENTURES *continued*

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

	2011	2010
	£'000	£'000
<u>Share of income:</u>		
Tremough Campus Services	6,255	5,376
INTO University of Exeter LLP	6,701	6,344
	12,956	11,720
<u>Share of operating surplus:</u>		
Tremough Campus Services	190	146
INTO University of Exeter LLP	679	655
	869	801
<u>Share of gross assets:</u>		
Tremough Campus Services	30,178	30,516
INTO University of Exeter LLP	6,847	5,222
	37,025	35,738
<u>Share of gross liabilities:</u>		
Tremough Campus Services	(28,289)	(28,940)
INTO University of Exeter LLP	(5,589)	(4,645)
	(33,878)	(33,585)
<u>Share of net assets:</u>		
Tremough Campus Services	1,889	1,576
INTO University of Exeter LLP	1,258	577
	3,147	2,153

NOTE 15 – ENDOWMENT ASSET INVESTMENTS – Group and University

	2011	2010
	£'000	£'000
Balance at 1 August	21,074	18,102
New endowments invested	1,290	703
Increase in market value of investments	2,160	2,570
(Decrease) in cash balances held for endowment funds	(640)	(301)
Balance at 31 July	23,884	21,074
The investments comprise:		
Fixed interest stocks	5,197	3,964
Equities	14,994	15,577
Property	459	521
Alternative investments	276	326
Bank balances	2,958	686
	23,884	21,074

NOTES TO THE ACCOUNTS

NOTE 16 – DEBTORS

	Group		University	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
<u>Amounts falling due within one year:</u>				
Debtors	7,634	6,670	7,351	6,916
Prepayments and accrued income	16,346	20,325	16,315	20,318
Amounts owed by group undertakings:				
Subsidiary companies	–	–	201	305
Related parties	1,924	2,137	1,924	2,137
	25,904	29,132	25,791	29,676
<u>Amounts falling due after more than one year:</u>				
Debtors	2,000	2,000	2,000	2,000
	27,904	31,132	27,791	31,676

Included within debtors falling due after more than one year is an amount of £2,000,000 (2010: £2,000,000) that relates to deposits previously placed with Landsbanki Islands hf. This balance is net of the provision of £500,000 (2010: £500,000) which is based on current professional advice. The deposits are expected to be repaid after more than one year.

On 18 April 2008 the University of Exeter on behalf of the Peninsula College of Medicine and Dentistry (PCMD), placed £1 million 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.

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

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 – although the results of recent court cases have been encouraging.

The most current professional advice indicates that amounts ranging up to 94% of such deposits could be recoverable by preferred creditors. The University of Exeter and PCMD have continued to assume 80% of the sum will be recovered until the final outcome and payment is more certain.

NOTE 17 – CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Bank loans and overdrafts (note 18)	–	265	–	265
Research grants received on account	17,855	15,152	17,855	15,152
Trade creditors	12,151	11,441	11,682	11,300
Other creditors	14,438	11,681	14,444	11,698
Social security and other taxation payable	3,165	2,867	3,163	2,867
Accruals and deferred income	13,875	16,408	13,358	16,345
Amounts owed to group undertakings:				
Related parties	2,139	1,005	2,139	1,005
	63,623	58,819	62,641	58,632

Other creditors include an amount of £nil (2010: £276,000) due in respect of pension liabilities following early retirements.

NOTE 18 – CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Group		University	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Bank loans (see below)	102,690	92,690	102,690	92,690
Inherited Liability – Cornwall County Council	19	28	19	28
Accruals and deferred income	3,012	3,037	3,012	3,037
Amounts owed to group undertakings:				
Subsidiary companies	–	–	–	1,829
	105,721	95,755	105,721	97,584

i) Bank loans and overdrafts – Group and University

	2011 £'000	2010 £'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	–	265
Bank loans:		
Less than one year	–	–
In one to two years	–	–
In two to five years	8,269	5,513
In five years or more	94,421	87,177
	102,690	92,955

NOTES TO THE ACCOUNTS

NOTE 18 – CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR *continued*

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

	Facility £'000	Interest Rate %	Repayment*	Term	2011 £'000	2010 £'000
<u>National Westminster Bank Plc</u>	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
<u>Barclays Bank Plc</u>	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		4.39	Quarterly	34 years (to 2043)	10,000	10,000
Tranche 5		1 month LIBOR +0.21%	Quarterly	34 years (to 2043)	10,000	–
					<u>102,690</u>	<u>92,690</u>
Bank loans repayable within one year					–	–
Bank loans repayable after more than one year					<u>102,690</u>	<u>92,690</u>

* No repayments of capital were made or due during the year. Capital repayments commence in 2013/14 for loans totalling £82,690,000 and 2017/18 for the remaining £20,000,000.

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. These 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 below certain financial limits and in the ordinary course of its business, without each lender's written consent.

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 fixed, via the interest rate swap transactions mentioned below. During the year ended 31 July 2009 £10 million of the Barclays B facility was drawn and the interest rate was fixed, again via the interest rate swap transactions mentioned below. During the year ended 31 July 2011 a further £10 million of the Barclays B facility was drawn at the variable interest rate of 1-month LIBOR +0.21%, which will become fixed at 4.66% from 1 August 2013, again via the interest rate swap transactions as 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 to a variable 3 month LIBOR. These 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. The new agreements put in place in 2010/11 will mature in April and July 2012.

NOTE 19 – PROVISIONS – Group and University

	Deferred capital grant £'000	Total £'000
Balance at 1 August 2010	883	883
Transfer to deferred capital grants receivable	(544)	(544)
Utilised in year	–	–
Balance at 31 July 2011	339	339

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 years prior to 31 July 2010. This audit identified some areas where it was asserted that the procurement processes which utilised these funds were not fully compliant with the European Union Procurement Regulations. Following the results of the on-going discussions between the University of Exeter and University College Falmouth and the relevant authorities, a reduced provision of £339,013 has been recognised as at 31 July 2011 which represents management's current estimate of the liability based on correspondence and professional advice received in respect of this matter. The provision also correspondingly reduces the deferred capital grant balance.

NOTE 20 – DEFERRED CAPITAL GRANTS – Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2010			
Land and buildings	57,048	42,016	99,064
Equipment	5,598	2,877	8,475
	62,646	44,893	107,539
Grants receivable:			
Land and buildings	3,364	7,960	11,324
	–	3,475	3,475
	3,364	11,435	14,799
Released to Income and Expenditure Account:			
Land and buildings	1,741	1,279	3,020
Equipment	1,159	2,046	3,205
	2,900	3,325	6,225
At 31 July 2011			
Land and buildings	58,671	48,697	107,368
Equipment	4,439	4,306	8,745
	63,110	53,003	116,113
Released to Income and Expenditure Account:			
Funding body grants			2,900
Research grants and contracts			1,742
Other income			1,583
			6,225

NOTES TO THE ACCOUNTS

NOTE 21 – ENDOWMENTS – Group and University

				2011	2010
		Restricted Permanent £'000	Restricted Expendable £'000	Total £'000	Total £'000
At 1 August	Capital	15,382	5,305	20,687	17,777
	Accumulated income	378	9	387	325
		15,760	5,314	21,074	18,102
	New endowments	–	1,290	1,290	703
		–	1,290	1,290	703
	Investment income	557	347	904	827
	Expenditure	(479)	(1,065)	(1,544)	(1,128)
		78	(718)	(640)	(301)
	Increase in market value of investments	1,728	432	2,160	2,570
At 31 July		17,566	6,318	23,884	21,074
Represented by:	Capital	17,110	6,251	23,361	20,687
	Accumulated income	456	67	523	387
		17,566	6,318	23,884	21,074

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

Represented by:		2011 £'000	2010 £'000
	Trustees Security Pool	3,630	3,237
	Institute for Arab and Islamic Studies	14,691	13,205
	PMS Vandervell	1,028	894
	Fundraising	4,535	3,738
		23,884	21,074

NOTE 22 – REVALUATION RESERVE

Group	Freehold Land and Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2010	209,992	5,559	215,551
Revaluation in the year			
Fixed assets – land and buildings	51,456	–	51,456
Fixed assets investments – fine art and books	–	674	674
Fixed assets investments – quoted shares	–	420	420
	51,456	1,094	52,550
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(3,380)	–	(3,380)
	(3,380)	–	(3,380)
At 31 July 2011	258,068	6,653	264,721
University	Freehold Land and Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2010	206,952	5,559	212,511
Revaluation in the year			
Fixed assets – land and buildings	51,350	–	51,350
Fixed assets investments – fine art and books	–	674	674
Fixed assets investments – quoted shares	–	420	420
	51,350	1,094	52,444
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(3,318)	–	(3,318)
	(3,318)	–	(3,318)
At 31 July 2011	254,984	6,653	261,637

The impairment on re-valued assets is in relation to the Geoffrey Pope building. See note 12 for further details.

NOTES TO THE ACCOUNTS

NOTE 23 – INCOME AND EXPENDITURE RESERVE

	Group		University	
	2011 £'000	2010 £'000	2011 £'000	2010 £'000
Balance at 1 August	54,175	27,396	55,508	29,835
Surplus for the year	11,176	6,125	10,246	5,065
Transfers from revaluation reserve	3,380	13,517	3,318	13,455
Actuarial (loss)/gain on pension schemes	(897)	7,137	(1,024)	7,153
Balance at 31 July	67,834	54,175	68,048	55,508

NOTE 24 – RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2011 £'000	2010 £'000
Surplus on continuing operations	11,176	6,125
FRS 17 – Pension adjustment	(1,751)	(14)
Depreciation (note 8)	15,803	13,106
Impairment of land and buildings (note 12)	3,121	2,559
Surplus on disposal of tangible fixed assets	–	(801)
Deferred capital grants released (note 20)	(6,225)	(5,259)
Endowment and investment income (note 5)	(1,939)	(1,572)
Interest payable (note 9)	4,911	4,840
(Increase)/decrease in stock	(20)	87
Decrease/(increase) in debtors	3,185	(9,491)
Increase in creditors	1,453	5,018
Net cash inflow from operating activities	29,714	14,598

NOTE 25 – RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2011 £'000	2010 £'000
Income from short term investments	681	526
Other interest received	67	60
Interest paid	(4,896)	(4,827)
Net cash outflow from returns on investments and servicing of finance	(4,148)	(4,241)

NOTE 26 – CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2011 £'000	2010 £'000
Purchase of tangible assets	(59,082)	(39,104)
Payments to acquire long term investments	(2,158)	(1,491)
Total fixed and endowment assets acquired	(61,240)	(40,595)
Receipts from the sale of tangible assets	–	17,641
Receipts from the sale of long term investments	74	192
Receipts from the sale of endowment assets	624	1,462
Deferred capital grants received	14,873	11,752
Endowments received	1,290	703
Net cash outflow from capital expenditure and financial investment	(44,379)	(8,845)

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

NOTE 27 – MANAGEMENT OF LIQUID RESOURCES

	2011 £'000	2010 £'000
Cash (deposited)/withdrawn from short term deposits	(2,311)	6,635
Net cash (outflow)/inflow from management of liquid resources	(2,311)	6,635

NOTE 28 – FINANCING

	2011 £'000	2010 £'000
New loans repayable by 2043	10,000	–
Repayment of amounts borrowed	(8)	(454)
Net cash inflow/(outflow) from financing	9,992	(454)

NOTES TO THE ACCOUNTS

NOTE 29 – ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2010 £'000	Cash Flows £'000	At 31 July 2011 £'000
Cash in hand and at bank	31,102	(11,397)	19,705
Overdrafts	(265)	265	–
	<u>30,837</u>	<u>(11,132)</u>	<u>19,705</u>
Debt due within one year	(8)	(1)	(9)
Debt due after one year	(92,718)	(9,991)	(102,709)
Current asset investments	24,138	2,311	26,449
	<u>(37,751)</u>	<u>(18,813)</u>	<u>(56,564)</u>

NOTE 30 – 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 Department of Sport and 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 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.

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.

The latest triennial actuarial valuation of the scheme was at 3 March 2008 and was carried out using the projected unit method. To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% 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.

NOTE 30 – PENSION SCHEMES continued

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.

Since 31 March 2008 global investment markets have continued to fluctuate and as at 31 March 2011 the actuary has estimated that the funding level under the scheme specific funding regime had fallen from 103% to 98% (a deficit of circa £700 million). Compared to the previous twelve months, the funding level has improved from 91% (as at 31 March 2010) to 98%.

The contribution rate payable by the University was 16% of pensionable salaries. The next formal triennial actuarial valuation, as at 31 March 2011, is now due. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently. Surpluses or deficits which arise at future valuations may impact on the University'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.

At 31 March 2011, USS had over 142,000 active members and the University had over 1,800 active members participating in the Scheme.

The total pension cost for the University was £11,595,000 (2010: £10,348,000). This includes £1,458,000 (2010: £1,298,000) outstanding contributions at the balance sheet date.

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

The latest actuarial valuation of the Scheme was dated 5 April 2009. 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 nine months from the date of the valuation, to eliminate this deficit and had already increased the employer's contributions in order to fund the projected shortfall. The employee contribution rate has also increased to 6.25% (from 6.00%) as 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%

NOTES TO THE ACCOUNTS

NOTE 30 – PENSION SCHEMES continued

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:

	2011	2010	2009
	%	%	%
Discount rate for scheme liabilities	5.3	5.6	6.3
Inflation assumption – RPI	3.5	3.3	3.7
Inflation assumption – CPI	3.0	2.8	N/A
Long-term salary growth increases*	4.2	4.0	4.7
Increases on CARE benefits before retirement (in active service)	3.5	3.3	N/A
Pension payment increases – pre 01/08/10 service	3.0	2.8	3.7
Pension payment increases – post 01/08/10 service	2.3	2.3	N/A

* A lower rate averaging 2% per annum is assumed for the two 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:

	2011	2010	2009
	Years	Years	Years
Future life expectancies at age 65:			
Male currently aged 65	20.2	20.1	20.1
Female currently aged 65	22.2	22.2	22.2
Male currently aged 45	22.0	22.0	21.9
Female currently aged 45	23.4	23.4	23.4

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 2011		31 July 2010		31 July 2009	
	Long-term rate of return expected		Long-term rate of return expected		Long-term rate of return expected	
	% p.a.	£'000	% p.a.	£'000	% p.a.	£'000
Equities	7.9	54,630	8.2	49,073	8.5	40,475
Corporate bonds	5.3	6,896	5.4	5,834	6.0	5,548
Government bonds	3.9	16,461	4.2	13,937	4.0	12,944
Cash/Other	3.5	2,078	3.3	517	4.8	810
	<u>6.7</u>	<u>80,065</u>	<u>7.1</u>	<u>69,361</u>	<u>7.2</u>	<u>59,777</u>
Present value of scheme liabilities		(92,426)		(82,449)		(80,032)
Pension liability		<u>(12,361)</u>		<u>(13,088)</u>		<u>(20,255)</u>

NOTE 30 – PENSION SCHEMES continued

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 2011.

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account

	2011	2010
	£'000	£'000
Current service cost	2,426	2,256
Past service cost	–	180
Total operating charge	2,426	2,436

Analysis of the amount charged to the income and expenditure account

	2011	2010
	£'000	£'000
Within salaries and wages – members' contributions	842	–
Within pension costs – monthly contributions	2,994	3,132
Within pension costs – FRS 17	(1,410)	(696)
Total operating charge (note 6)	2,426	2,436

Contributions of £842,000 (2010: £nil) represent contributions made by current members under a salary sacrifice arrangement and charged to salaries and wages but treated as if part of the University's contributions by the Scheme and for FRS 17 purposes.

Analysis of amount credited to investment income/(charged to interest payable)

	2011	2010
	£'000	£'000
Expected return on pension scheme assets	4,898	4,218
Interest on pension scheme liabilities	(4,557)	(4,900)
Net credit/(charge) on pension scheme funds	341	(682)

NOTE 30 – PENSION SCHEMES continued

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

	2011	2010
	£'000	£'000
Total actuarial (losses)/gains	(1,024)	7,153
Total (loss)/gain recognised in the STRGL	(1,024)	7,153
Cumulative amount of losses recognised in the STRGL	(28,404)	(27,380)

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). In the year ended 31 July 2010, the University considered the University of Exeter Retirement Benefits Scheme rules and associated members' literature and concluded that, as a result, revised actuarial assumptions about the level of inflation indexation should be adopted with the resultant gain being recognised through the Statement of Total Recognised Gains and Losses ('STRGL') for the year ended 31 July 2010. Following the issue of Urgent Issues Task Force ('UITF') Abstract 48 in December 2010, the University has reconsidered its position in respect of the above and has concluded that the above treatment of the gain remains appropriate. CPI continues to be adopted as the bases of inflation indexation since this change.

Movement in the scheme deficit during the year

	2011	2010
	£'000	£'000
Deficit on scheme at 1 August	(13,088)	(20,255)
Movements in the year:		
Current service cost	(2,426)	(2,256)
Past service cost	–	(180)
Contributions paid	3,836	3,132
Other finance income/(expenditure)	341	(682)
Actuarial (losses)/gains	(1,024)	7,153
Deficit on scheme at 31 July	(12,361)	(13,088)

NOTE 30 – PENSION SCHEMES continued**Changes to the present value of the defined benefit obligation during the year**

	2011	2010
	£'000	£'000
Opening defined benefit obligation	82,449	80,032
Current service cost	2,426	2,256
Past service cost	–	180
Interest cost	4,557	4,900
Contributions by scheme participants	119	927
Actuarial losses/(gains) on scheme liabilities*	7,452	(313)
Net benefits paid out	(4,577)	(5,533)
Closing defined benefit obligation	92,426	82,449

* Includes changes to the actuarial assumptions

A bank guarantee facility of £34 million was given by one of the University's bankers in favour of the Trustees of University of Exeter Retirement Benefits Scheme.

Changes to the fair value of scheme assets during the year

	2011	2010
	£'000	£'000
Opening fair value of scheme assets	69,361	59,777
Expected return on scheme assets	4,898	4,218
Actuarial gains/(losses) on scheme assets	6,428	6,840
Contributions by the employer	3,836	3,132
Contributions by scheme participants	119	927
Net benefits paid out	(4,577)	(5,533)
Closing fair value of scheme assets	80,065	69,361

Actual return on scheme assets

	2011	2010
	£'000	£'000
Expected return on scheme assets	4,898	4,218
Actuarial gains on scheme assets	6,428	6,840
Actual return on scheme assets	11,326	11,058

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

	2011	2010	2009
	£'000	£'000	£'000
Fair value of scheme assets	80,065	69,361	59,777
Defined benefit obligation	(92,426)	(82,449)	(80,032)
Deficit in the scheme	(12,361)	(13,088)	(20,255)

NOTES TO THE ACCOUNTS

NOTE 30 – PENSION SCHEMES continued

History of experience gains and losses:

	2011	2010	2009	2008	2007 Restated*
Experience gains/(losses) on scheme assets:					
- Amount (£'000)	6,428	6,840	(8,690)	(7,212)	3,003
- % of scheme assets	8.0%	9.9%	(14.5%)	(11.2%)	4.5%
Experience gains/(losses) on scheme liabilities:					
- Amount (£'000)	–	(5,117)	(3,234)	(997)	3,039
- % of the present value of scheme liabilities	0%	(6.2%)	(4.0%)	(1.4%)	4.3%
Total amount recognised in the statement of total recognised gains and losses:					
- Amount (£'000)	(1,024)	7,153	(15,415)	(3,354)	12,120
- % of the present value of scheme liabilities	(1.1%)	8.7%	(19.3%)	(4.8%)	17.3%

* Restatement due to retrospective implementation of the 2007 SORP: "Accounting for Further and Higher Education" and to reflect consolidation of the Exeter University Foundation (first consolidated in financial statements 2007/08).

(iii) Total Pension Cost

The total pension cost for the University was:

	2011 £'000	2010 £'000
Contributions to USS – regular cost	11,595	10,348
Contributions to ERBS – current and past service cost	1,584	2,436
Contributions to other pension schemes	215	213
	13,394	12,997
Supplementary pension costs	39	8
Early retirement pension enhancement costs	135	492
Total pension cost	13,568	13,497

NOTE 31 – CAPITAL COMMITMENTS – Group and University

	2011 £'000	2010 £'000
Commitments contracted at 31 July	15,242	43,931
Authorised but not contracted at 31 July	56,452	28,887
	71,694	72,818

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 32 for the capital commitments of Group undertakings.

NOTE 32 – 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 for architectural services with Lacey Hickie & Caley Limited, a wholly owned subsidiary of LHC Group Limited. These transactions are conducted at arm's length and in the normal course of business. Mr Peter Lacey, a Pro-Chancellor of the University is a shareholder of LHC Group Limited. During the year an amount of £12,275 (2010: £48,746) was invoiced to the University.

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

Tremough Campus Services

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

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

During 2009 TCS commenced drawing down a loan with Barclays Bank Plc for new residences. The facility is for £20.5 million and is repayable over 30 years. The University and UCF have jointly and equally guaranteed this facility and also continued to guarantee sums of £9.3 million and £6.25 million each to Lloyds TSB Bank Plc, in respect of the borrowings of £18.6 million and £12.5 million respectively to TCS.

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

	2011 £'000	2010 £'000
Commitments contracted at 31 July	21,610	2,808
Authorised but not contracted at 31 July	12,013	47,686
	<u>33,623</u>	<u>50,494</u>

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.

NOTES TO THE ACCOUNTS

NOTE 32 – RELATED PARTY TRANSACTIONS *continued*

Transactions between the University and TCS were as follows:

	2011 £'000	2010 £'000
Income derived from the TCS Group	837	1,951
Expenditure incurred with the TCS Group	1,908	24
Payments by the TCS Group on behalf of the University	7,018	2,188

'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:

	2011 £'000	2010 £'000
Amount owing from University of Exeter to the TCS Group	828	73
Amount due to University of Exeter from the TCS Group	3	55

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:

	2011 £'000	2010 £'000
Operating costs recharged to INTO University of Exeter LLP	2,029	3,168
Expenditure incurred with INTO University of Exeter LLP	378	320

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

	2011 £'000	2010 £'000
Amount owing from INTO University of Exeter LLP	755	992
Amount due to INTO University of Exeter LLP	267	320

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

	2011 £'000	2010 £'000
Amount owing from Exeter ISC to the University of Exeter	6	1

NOTE 32 – RELATED PARTY TRANSACTIONS continued**University of Exeter Students' Guild**

In accordance with FRS 2, the activities of the University of Exeter Students' 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 2011 the surplus on the Guilds' activities was £40,000 (2010: £74,000 surplus) and its capital and reserves totalled £374,000 at this date (2010: £334,000).

Thomas Hall Estates Limited

The University has an arrangement with a local construction company to renovate and refurbish Thomas Hall. The nature of the arrangement is that a company, Thomas Hall Estates Limited, will work in association with the University to develop a hotel and conference centre on the Thomas Hall site at the University.

A lay member of the University's Council and a senior member of staff are directors of Thomas Hall Estates Limited.

If the project was aborted each party would be liable to 50% of the direct costs incurred to date by the company. The University has continued to accrue its share of these costs of £293,000 (2010: £263,000) until the outcome of the project is more certain.

NOTE 33 – ACCESS FUNDS

Summary of transactions for the year ended 31 July 2011

	2011 £'000	2010 £'000
Balance at 1 August	12	28
Funding Council grants	187	219
Interest earned	1	1
	<u>200</u>	<u>248</u>
Disbursed to students	(183)	(228)
Administration costs	(6)	(8)
Balance at 31 July	<u>11</u>	<u>12</u>

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 34 – TDA INITIAL TEACHER TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2011

	2011 £'000	2010 £'000
Balance at 1 August	(65)	127
TDA grants received	3,167	3,466
Total TDA training bursary funding available for the year	<u>3,102</u>	<u>3,593</u>
Disbursements to students	(2,935)	(3,658)
Balance at 31 July	<u>167</u>	<u>(65)</u>

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.

NOTES TO THE ACCOUNTS

NOTE 35 – MAINSTREAM RECRUITMENT AND RETENTION FUNDING

Summary of transactions for the year ended 31 July 2011

	2011 £'000	2010 £'000
Balance at 1 August	15	–
TDA funds (repaid)/received	(15)	26
Total TDA funding available for the year	–	26
TDA recruitment and retention expenditure	–	(11)
Balance at 31 July	–	15

NOTE 36 – TDA STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2011

	2011 £'000	2010 £'000
Funds received	94	293
Disbursements to students	(88)	(260)
Excess of income over expenditure for the year	6	33

NOTE 37 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY**INCOME AND EXPENDITURE ACCOUNT**

of the Higher Education (HE) Community Chest for the year ended 31 July 2011

		University of Exeter 2011 £'000	University of Plymouth 2011 £'000	Total 2011 £'000	Total 2010 £'000
INCOME	Note				
Funding Council grants	iii	8,729	8,729	17,458	16,964
Tuition fees and education contracts		2,707	2,745	5,452	4,574
NHS funding	iv	2,075	2,075	4,150	7,528
Research grants and contracts		10,348	2,220	12,568	11,107
Other income	v	1,284	1,322	2,606	4,854
Endowment and investment income		98	98	196	209
Total income		25,241	17,189	42,430	45,236
EXPENDITURE					
Staff costs	vi	14,763	9,233	23,996	20,797
Other operating expenses		9,806	7,320	17,126	20,214
Depreciation	vii	260	224	484	234
Total expenditure		24,829	16,777	41,606	41,245
Surplus on continuing operations		412	412	824	3,991

BALANCE SHEET of the Higher Education (HE) Community Chest as at 31 July 2011

	Note	2011 £'000	2010 £'000
Fixed assets			
Tangible assets	vii	5,204	3,717
Current assets			
Stock		4	–
Debtors	viii	7,765	12,452
Cash at bank and in hand	ix	30,192	25,359
		37,961	37,811
Creditors: amounts falling due within one year	x	(17,477)	(18,151)
Net current assets		20,484	19,660
Total assets less current liabilities		25,688	23,377
NET ASSETS		25,688	23,377
Deferred capital grants	vii	5,204	3,717
Reserves	xi	20,484	19,660
TOTAL		25,688	23,377

NOTES TO THE ACCOUNTS

NOTE 37 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY *continued*

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 not an entity 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 Planning and Performance Committee is accountable to 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 Planning and Performance Committee 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 2011.

iii. Funding Council grants

	2011	2010
	£'000	£'000
Recurrent grant	16,689	15,928
Other specific grants	685	953
Deferred capital grants released in the year: Equipment	84	83
	17,458	16,964

iv. NHS funding

	2011	2010
	£'000	£'000
NHS funding	4,150	7,528

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

v. Other income

	2011	2010
	£'000	£'000
Other grant income	1,467	4,630
Other income	1,139	224
	2,606	4,854

NOTE 37 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY continued

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 2011 Number	Year Ended 31 July 2010 Number
Academic staff	111	100
Research staff	131	108
Teaching fellows (formerly tutors)	8	7
Support staff	208	197
Total	458	412

Those staff employed by the University of Exeter are included in the staff numbers for the University in note 6.

vii. *Fixed assets*

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

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

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected life of the equipment. The equipment capitalised in this statement is solely acquired with funding made available from the HE Community Chest and the equipment is jointly owned by the two universities. The principal items are for telematics.

viii. *Debtors*

	2011 £'000	2010 £'000
Debtors	2,685	3,141
Prepayments and accrued income	4,668	8,043
Due from partner university	412	1,268
	7,765	12,452

Included within debtors is an amount of £800,000 (2010: £800,000) that relates to a deposit placed with Landsbanki Islands hf. This balance is net of a provision of £200,000 (2010: £200,000) that was written off in the year ended 31 July 2009. The deposits are contractually due to be repaid after more than one year. Note 16 provides further information on this matter.

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

Included in Debtors are amounts owing from University of Plymouth Enterprise Limited, a University of Plymouth owned subsidiary company, of £63,531 (2010: £39,119).

NOTES TO THE ACCOUNTS

NOTE 37 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY *continued*

ix. *Cash at bank and in hand*

	2011	2010
	£'000	£'000
Held by:		
University of Exeter	11,038	11,654
University of Plymouth	19,152	13,704
University of Plymouth – PCMD	2	1
	<u>30,192</u>	<u>25,359</u>

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.

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

	2011	2010
	£'000	£'000
Trade creditors	407	263
Other creditors	11	44
Due to partner universities	997	–
Deferred income:		
HEFCE Capital funding	–	2,131
HEFCE Dental start-up funding	785	1,468
NHS Capital funding	263	1,118
NHS Dental start-up funding	4,485	2,451
NHS SIFT	2,116	1,440
Accruals and other deferred income	8,413	9,236
	<u>17,477</u>	<u>18,151</u>

xi. *Reserves*

	2011	2010
	£'000	£'000
Opening balance	19,660	15,669
Surplus for the year	824	3,991
Closing balance	<u>20,484</u>	<u>19,660</u>

FIVE YEAR SUMMARY ACCOUNTS

These pages do not form part of the Statutory Financial Statements:

	2010/11	2009/10	2008/09	2007/08	2006/07 Restated*
	£'000	£'000	£'000	£'000	£'000
INCOME AND EXPENDITURE					
Income					
Funding body grants	74,815	71,631	67,670	63,544	57,898
Tuition fees and education contracts	81,261	74,181	60,037	45,507	35,179
Research grants and contracts	46,327	37,728	33,313	24,497	20,100
Other income	41,855	42,102	40,469	40,205	36,142
Endowment and investment income	1,912	1,572	1,721	4,988	3,506
Total income	246,170	227,214	203,210	178,741	152,825
Expenditure					
Staff costs	127,957	118,988	112,190	100,480	90,082
Other operating expenses	84,739	82,828	68,970	58,460	50,423
Depreciation	15,803	13,106	14,100	11,594	10,054
Impairment	3,121	2,559	–	–	–
Interest payable	4,883	5,522	4,875	4,930	4,944
Total expenditure	236,503	223,003	200,135	175,464	155,503
Operating surplus/(deficit)	9,667	4,211	3,075	3,277	(2,678)
Share of operating profit/(loss) in JV	869	801	228	(866)	(817)
Exceptional items	–	812	(36)	(5,579)	3,188
Transfer from endowments	640	301	383	206	37
Surplus/(deficit) for the year	11,176	6,125	3,650	(2,962)	(270)
Historical cost adjustments	3,380	13,517	5,054	4,999	6,373
Historical cost surplus for the year	14,556	19,642	8,704	2,037	6,103

* Restatement due to retrospective implementation of the 2007 SORP: "Accounting for Further and Higher Education" and to reflect consolidation of the Exeter University Foundation (first consolidated in financial statements 2007/08).

FIVE YEAR SUMMARY ACCOUNTS

These pages do not form part of the Statutory Financial Statements:

	2010/11	2009/10	2008/09	2007/08	2006/07
	£'000	£'000	£'000	£'000	Restated* £'000
BALANCE SHEET					
Fixed assets	556,206	459,010	450,045	449,370	457,408
Endowment asset investments	23,884	21,074	18,102	15,974	18,534
Net current assets	10,883	27,981	22,480	20,791	20,940
Creditors: amounts falling due after more than one year	(105,721)	(95,755)	(92,978)	(83,180)	(77,871)
	485,252	412,310	397,649	402,955	419,011
Provisions for liabilities	(339)	(883)	(846)	(893)	(1,899)
Pension liability	(12,361)	(13,088)	(20,255)	(5,308)	(2,990)
Total net assets	472,552	398,339	376,548	396,754	414,122
Represented by:					
Deferred capital grants	116,113	107,539	101,287	93,213	85,558
Endowment reserve	23,884	21,074	18,102	15,974	18,534
Revaluation reserve	264,721	215,551	229,763	250,217	271,376
Income and expenditure reserve	67,834	54,175	27,396	37,350	38,654
Total funds	472,552	398,339	376,548	396,754	414,122

* Restatement due to retrospective implementation of the 2007 SORP: "Accounting for Further and Higher Education" and to reflect consolidation of the Exeter University Foundation (first consolidated in financial statements 2007/08).

These pages do not form part of the Statutory Financial Statements:

	2010/11	2009/10	2008/09	2007/08	2006/07
	%	%	%	%	Restated * %
Sources of income (% of income)					
Funding body grants	30.4	31.5	33.3	35.6	37.9
Tuition fees – Home and EU	19.5	19.6	19.4	17.3	15.2
Tuition fees – Overseas and other	13.5	13.1	10.1	8.2	7.8
Research grants and contracts	18.8	16.6	16.4	13.7	13.2
Residences, catering and conferences	8.5	9.6	10.7	11.9	13.6
Other income	8.7	8.9	9.2	10.6	10.0
Endowment and investment income	0.6	0.7	0.9	2.7	2.3
Total income	100.0	100.0	100.0	100.0	100.0
Analysis of expenditure (% of expenditure)					
Staff costs	54.1	53.4	56.1	57.3	57.9
Other operating expenses	35.8	37.1	34.4	33.3	32.4
Depreciation	6.7	5.9	7.0	6.6	6.5
Impairment	1.3	1.1	–	–	–
Interest payable	2.1	2.5	2.5	2.8	3.2
Total expenditure	100.0	100.0	100.0	100.0	100.0
Operating surplus/(deficit) as a % of total income	3.9	1.8	1.5	1.8	(1.8)
Indicators of financial strength					
Days ratio of available funds** to total expenditure***	104.2	90.5	50.3	45.8	60.3
<i>The number of days expenditure that could be sustained from available funds</i>					
% Ratio of long-term liabilities** to total net assets	22.4	24.0	24.7	21.0	18.8
<i>Measures the extent to which an institution is funded by long-term debt</i>					
Indicators of liquidity and solvency					
Ratio of liquid assets to current liabilities	0.73	0.94	0.99	0.95	0.75
<i>Extent to which current liabilities could be met from cash and liquid investments</i>					
Days ratio of liquid assets to total expenditure***	77.5	97.6	105.9	98.4	73.5
<i>Days that total expenditure could be met from cash and liquid investments</i>					
Ratio of current assets to current liabilities	1.18	1.48	1.41	1.45	1.54
<i>Extent to which current liabilities could be met from current assets</i>					
Days of total income**** represented by debtors	41.8	50.0	40.7	45.9	51.1
<i>Days of total income (excluding Funding body grants) represented by debtors</i>					

* Restatement due to retrospective implementation of the 2007 SORP: "Accounting for Further and Higher Education" and to reflect consolidation of the Exeter University Foundation (first consolidated in financial statements 2007/08)

** Excluding FRS17 pension liability/reserve

*** Excluding depreciation and FRS17 expenditure

**** Excluding FRS17 income

DETAILED MOVEMENTS IN RESERVES

These pages do not form part of the Statutory Financial Statements:

Group	Balance at 1 August 2010 £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2011 £'000
Available reserves					
Colleges	15,211	12,250	–	(10,052)	17,409
Professional Services	1,347	(622)	–	(53)	672
Strategic Development Fund	4,251	3,612	–	2,346	10,209
Infrastructure Fund	20,365	(1,725)	–	1,237	19,877
Fundraising	1,513	17	–	–	1,530
Other reserves	1,199	807	–	–	2,006
General reserve	7,355	5,242	3,380	(5,693)	10,284
	<u>51,241</u>	<u>19,581</u>	<u>3,380</u>	<u>(12,215)</u>	<u>61,987</u>
Committed reserves					
Capital reserve	22,309	(10,156)	–	10,788	22,941
Residences equalisation	(6,287)	–	–	1,554	(4,733)
Pension liability	(13,088)	1,751	–	(1,024)	(12,361)
	<u>2,934</u>	<u>(8,405)</u>	<u>–</u>	<u>11,318</u>	<u>5,847</u>
Total Group income and expenditure reserves	<u>54,175</u>	<u>11,176</u>	<u>3,380</u>	<u>(897)</u>	<u>67,834</u>

University	Balance at 1 August 2010 £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2011 £'000
Available reserves					
Colleges	15,211	12,250	–	(10,052)	17,409
Professional Services	1,347	(622)	–	(53)	672
Strategic Development Fund	4,251	3,612	–	2,346	10,209
Infrastructure Fund	20,365	(1,725)	–	1,237	19,877
Fundraising	1,513	17	–	–	1,530
Other reserves	1,199	807	–	–	2,006
General reserve	8,688	4,313	3,318	(5,821)	10,498
	<u>52,574</u>	<u>18,652</u>	<u>3,318</u>	<u>(12,343)</u>	<u>62,201</u>
Committed reserves					
Capital reserve	22,309	(10,156)	–	10,788	22,941
Residences equalisation	(6,287)	–	–	1,554	(4,733)
Pension liability	(13,088)	1,751	–	(1,024)	(12,361)
	<u>2,934</u>	<u>(8,405)</u>	<u>–</u>	<u>11,318</u>	<u>5,847</u>
Total University income and expenditure reserves	<u>55,508</u>	<u>10,247</u>	<u>3,318</u>	<u>(1,025)</u>	<u>68,048</u>





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