



Financial Statements 2008/09



CONTENTS

Business Review	1
Corporate Governance and Internal Control Statement	8
Membership of Council	12
Responsibilities of the Council of the University	14
Independent auditors report to the Council of the University of Exeter	16
Statement of Principal Accounting Policies	18
Consolidated Income and Expenditure Account	22
Statement of Consolidated Total Recognised Gains and Losses	24
Balance Sheets	25
Consolidated Cash Flow Statement	26
Notes to the Accounts	27
Five Year Summary Accounts	68
Financial Statistics	70

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

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PERFORMANCE OVERVIEW

This year has been one of continued success for the University with an excellent performance in the 2008 Research Assessment Exercise cementing the Institution's position as a top research intensive University.

Key successes this year include:

- The outcome of the Research Assessment Exercise, with an additional £3.7m awarded annually from 1 August 2009 to the University by the Funding Council as a consequence.
- Continued success in the National Student Survey with the University again being in the top 10 universities nationally.
- Student entry tariff scores for students increasing from 394 in 2007/08 to 411 in 2008/09 confirming the University as a destination of choice for high performing students.
- Ongoing success in widening participation, with state school entrants again above the Office for Fair Access (OFFA) target and with a 4% point growth in intake of students from lower socio-economic groups.
- Launch of the £9 million Science Strategy to build on leading edge inter-disciplinary research themes focused around the University's science strengths.
- A 14% increase in post-graduate research students now based at the University developing the capacity of the Institution's research mission.

Following the achievement of the University's "top 20 by 2010" in the UK goal, the target has been reset as "top 10 by 2012". This has led to a consolidation of the key performance targets for the University into three themes:

- Developing the University's research mission.
To be assessed by success in the Research Evaluation Framework and through growth in research income and post-graduate research students per member of academic staff.
- Developing the University's education mission.
This is to be assessed by the extent to which the University meets student expectations as measured by the National Student Survey. In addition the University will target improvements in student entry tariff scores, enhancements to the employment prospects of students and continued high performance on student progression and academic attainment.

- Developing the financial sustainability of the University.
The University continues to diversify its revenue streams to reduce its reliance on funding from the Higher Education Funding Council for England (the Funding Council). A major focus is on developing new and consolidating existing earned income streams. Important elements in this are the growth in the non-regulated education business and in the internationalisation of the University.

The University has directed its effort in developing these three themes over the year. As noted above considerable success has been achieved in these endeavours; however areas for improvement continue to be identified, most notably in enhancing student employment prospects which will be pursued with renewed vigour in 2009/10.

The University's research business achieved significant growth in the year with a 36% increase in income to £33.3 million with 41% of this growth in science, technology, engineering and medicine areas. Student numbers have continued to increase with a 9% increase to 15,525. Of this growth, half is in non-regulated areas (post-graduate taught, post-graduate research and international). This, combined with the final year of variable tuition fees, has led to an increase of £14.5 million in overall tuition fees; of this increase £7.4 million is in non-regulated business.

The successes of the University have also brought new challenges with the need for increased built space for research, teaching and residences being most prominent. During the year, the University approved funded infrastructure schemes on its campuses to the value of £316 million; these include an extension to the Business School, the major refurbishment of Biosciences facilities, a new Mood Disorder Centre, an additional 2,533 student residences in Cornwall and Exeter and the exciting Forum which will bring a new heart to the Streatham campus expanding teaching, retail, catering and library facilities.

BUSINESS REVIEW

The University is working with its partners to bring a £45m programme of investment in Cornwall, including a £20 million Environmental Sustainability Institute; this will continue in 2009/10. These infrastructure improvements are part of the initiatives to create a Destination University.

Along with many other universities, the University commenced its preparations for an expected reduction in the resources the Institution receives from the Funding Council. This "Creating Value" initiative is targeted to ensure that the University remains able to adapt, even in difficult circumstances, with the minimum of disruption to research and educational activities. The planned deliverables of this initiative are on track but the plan cannot be finalised until after the General Election.

Overall the University has had an excellent year, being noted as 12th in the Times Higher table of tables. This provides a strong foundation upon which to take the University forward and for the achievement of the University's new target of top 10 by 2012.

FINANCIAL OVERVIEW

Against a background of a turbulent world economic climate and an uncertain funding future, it is pleasing to report another year of solid financial performance, underpinned by significant growth in research and teaching activity. The financial performance reflects the targeted investment ahead of the Research Assessment Exercise and the capability of the University to invest in key strategic initiatives.

In monitoring the performance of the University, the Council of the University and the Funding Council use the historical cost basis. This basis is used by the Funding Council to assess all universities financial performance. For the year to 31 July 2009 the consolidated historical cost result for the University reported in these financial statements is:

	2009 £m	2008 £m	2007 £m
Income	203.2	178.7	152.8
Expenditure	(195.6)	(170.9)	(151.2)
Share of joint venture's operating results	0.2	(0.9)	(0.8)
	<u>7.8</u>	<u>6.9</u>	<u>0.8</u>
Exceptional items	0.5	(5.1)	5.3
Transfer from endowment funds	0.4	0.2	-
Historical cost surplus for the year	<u>8.7</u>	<u>2.0</u>	<u>6.1</u>

The historical cost operating surplus of the University before exceptional items has continued to grow and provides reassurance as to the ongoing financial strength of the Institution.

The University's group income has grown by 14% to £203.2 million. Some 18% of this growth arises from increases in earned income. The proportion of earned income has increased from 64% of total income in 2007/08 to 67% in 2008/09, in accordance with the University's strategy to reduce reliance on Funding Council grants. Significant increases in income were achieved through:

- Tuition fees and educational contracts, which rose 32% to £60.0 million arising from increased international student numbers and the third year of variable student tuition fees.
- Research activity, which rose by 36% from £24.5 million to £33.3 million.
- Other income increased by £2.8 million, primarily from growth in turnover of the University's joint ventures: Tremough Campus Services and INTO University of Exeter LLP; this increase is partly eliminated on consolidation.

There are a number of significant financial challenges ahead, in particular in respect of future Funding Council grants.

The University is facing these with a confidence based on sound financial management and planning, combined with clear strategic goals. The University will continue its strategic diversification of revenue with targets aimed at research income growth in the new Research Evaluation Framework era and a focus on internationalisation and improving the student experience.

The University is well placed to pursue its strategic direction of being a Top 10 UK University by 2012.

FINANCIAL PERFORMANCE REVIEW

The financial statements of the University comprise the University itself and its subsidiaries, Trusts where it has control and its share of the results of joint ventures and associated companies.

The University's consolidated financial surplus for the year is £3.7 million (2007/08 £3.0 million deficit). The operating result is a surplus of £3.3 million (2007/08 £2.4 million) after charging depreciation on the revalued carrying value of property.

The operating performance of the University has improved primarily due to the improved operating position of the University's joint ventures, from a deficit of £0.9 million in 2007/08 to a surplus of £0.2 million in 2008/09.

Tuition fee income and research income showed strong growth. This was the third year of variable tuition fees for home and European Union students. Further growth came from international student tuition fees, reflecting the University's international strategy. This follows investment in the University's own international marketing team in addition to the successful joint venture with INTO University Partnerships Limited.

Research income continues to increase, following investment in staff ahead of the Research Assessment Exercise and as part of the £9 million Science Strategy.

A major contribution to the operating result came from the good financial performance of the Peninsula College of Medicine and Dentistry which generated an operating surplus to the University of £4.9 million.

In respect of key expenditure areas, the University had to contend with major increases during the year in utility (£1 million increase over 2007/08) and staff costs (£11.7 million increase over 2007/08).

The final element of the nationally agreed three year pay agreement resulted in a pay increase of 5% in line with the September 2008 Retail Prices Index. Through tight budgetary control, overall expenditure was contained to ensure the operating surplus of the University was not compromised.

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

- A surplus on the disposal of off-campus properties of £0.4 million. The University is currently divesting of off-campus residential properties which are inefficient to operate and maintain. The resources generated by these disposals are being reinvested in the Infrastructure Strategy.
- A provision of £0.5 million in respect of investment in Landsbanki Islands hf. In compliance with the University's investment policy, the University invested £2.0 million in the Financial Services Authority registered British branch of the Icelandic financial institution Landsbanki Islands hf. In addition the University invested a further £1.0 million on behalf of its joint venture with the University of Plymouth, the Peninsula College of Medicine and Dentistry. The University consolidates 50% of the PCMD joint venture. Following the collapse of a number of Icelandic financial institutions the recovery of this debt was put into doubt. Negotiations continue in respect of recovery of this debt and it is anticipated that an element will not be recovered. A provision of 20% of the University's original consolidated investment of £2.5 million is included in the results for the year.

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

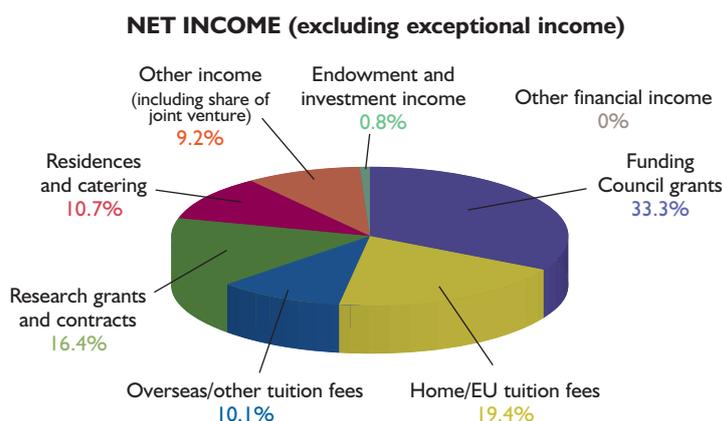
- A £4.5 million reduction in the depreciation charge arising on the revalued element of fixed assets.
- Lower costs of £0.5 million associated with assets sold in the year which had previously been revalued.

The University's operating surplus continues to improve to create a healthy financial position. This is vital as the Higher Education sector prepares for the strain on Government funding. The University has undertaken a rigorous review of its cost base to ensure it is able to adapt to changes in income streams and remains able to invest in strategic priorities.

BUSINESS REVIEW

INCOME

The University's group income has grown by 14% to £203.2 million in the year. Funding Council income has grown by 6% in the year whilst earned income has grown by some 18%. This is in line with the University's strategy to reduce reliance on Funding Council grants, whilst at the same time to grow sources of revenue compatible with the University's mission. In 2007/08 this Funding Council income constituted some 36% of income, in 2008/09 this fell to 33%.



Earned research income has shown the sharpest increase in the year with £8.8 million of new income, some 36% higher than 2007/08. This growth is a reflection of the investment in staff ahead of the Research Assessment Exercise. Research income now makes up some 16% of total income, an increase on the ratio in 2007/08 of 14%. This is significant given that tuition fees continue to grow (up 32% in 2008/09 alone) significantly increasing total revenues and acting to depress the perceived impact in research income growth. The absolute growth in research income is even more impressive; in the four years between 2004/05 and 2008/09 research income has more than doubled from £15.3 million to £33.3 million.

The University continues to target the growth in research income, particularly in the science, engineering and medicine areas. Specific strategies, such as the £9 million investment in the Science Strategy, are designed to enhance this growth by developing and strengthening areas of research. The University is developing a new research strategy to ensure the Institution maximises its opportunities under the new Research Evaluation Framework. This strategy will also have a bias towards science, engineering and medicine.

A second major area of income growth is tuition fees and educational contracts. These have grown by £14.5 million (an increase of 32% on 2007/08). Home and European Union undergraduate income increased by £7.1m (31%) as

a result of the income flowing from the third year of variable tuition fees (an additional £6.0 million) and the recruitment of further new students at the University's Cornwall campus (an additional £0.9 million). Home and European Union postgraduate income grew by £1.5 million (18%). The greatest percentage increase in tuition fee income was from international students at 51% (an additional £6.3 million). International tuition fee revenues now represent 31% of total tuition fee income compared to 27% in 2007/08.

The increase in international student numbers is due in large part to the implementation of the International Strategy, which has proved successful and is on target. The University's joint venture, INTO University of Exeter LLP, is also progressing to plan and is recruiting significant numbers of additional international students. Further growth in international student revenues is expected in the coming years both through the expansion of the University International Office and through the ongoing development of the partnership with INTO University Partnerships Limited. The University is specifically targeting this growth in non-regulated teaching activity.

The year has seen a modest growth in Funding Council revenues (6%). Recurrent teaching grant increased by 13% (£4.8 million) as the University's student numbers have increased with further student numbers in Cornwall and the development of dentistry in the Peninsula College of

Medicine and Dentistry. The Funding Council research grant increased in line with inflation at 3%. This is the final year research funding is based on the 2001 Research Assessment Exercise. In 2009/10 Funding Council research revenues will increase by £3.7 million due to the successful outcome of the Research Assessment Exercise for the University. These teaching and research increases in recurrent grant were offset by reductions in Funding Council grants for other objectives, notably with the cessation of working capital funding for Cornwall in 2007/08.

Other income in the year rose by £2.8 million (6%). This increase is primarily due to an increase in income relating to the joint ventures with INTO University of Exeter LLP

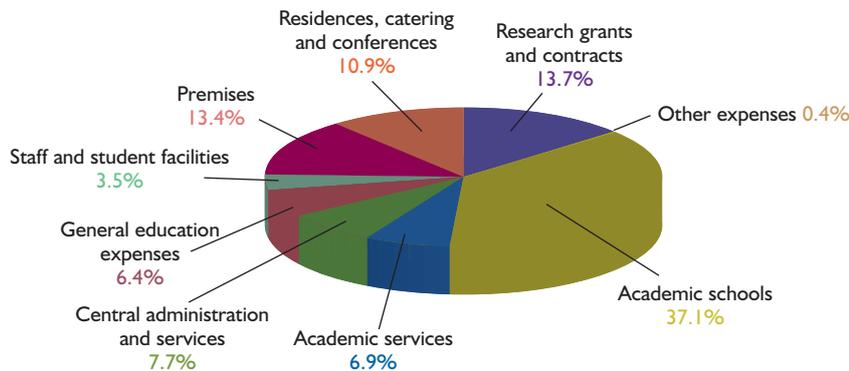
(£1.9 million) and Tremough Campus Services (£0.7 million). Other marginal increases in operating income across all categories were offset by the cessation of Cornwall phase 2 working capital grants in 2007/08.

Endowment and investment income fell by £2.5 million. This was mainly due to a reduction in income from short-term investments (£1.2 million) and an adverse movement of £1.2 million on the disposal of fixed asset investments within the Exeter University Foundation (£0.5 million loss in 2008/09 compared to a £0.7 million surplus in 2007/08). This reflects the current economic conditions and resulting fall in the rate of return on investments.

EXPENDITURE

The University's group expenditure has grown by 14% to £200.1 million in the year. Of this increase the majority has been on additional staff and other expenditure in schools, either for research or teaching activities.

EXPENDITURE (excluding exceptional expenditure)



Staff costs now total £112.2 million, an increase of 11.7% (some £11.7 million) over 2007/08. Of this increase 5% is due to the three year national pay award with the balance being principally due to new staff costs. The University has continued to recruit and increase the numbers of research focussed academic staff during the year.

The most significant increase in expenditure relates to other operating expenditure which increased by £10.5 million (18%) to £69.0 million. Of this increase £6.4 million is in schools and arises from higher research activity and student numbers. Scholarship, bursary and fellowship expenditure rose by £3.2 million (41%) to £10.9 million per year as part of the drive to recruit excellent students and to increase research. The increase in science research activity is also

driving expenditure on laboratory equipment, which is 15% higher than 2007/08 at £4.0 million. Other equipment investment more than doubled from £1.6 million to £3.3 million.

Other expenditure costs have risen by £3.8m since 2007/08, of which energy costs constitute £1 million (an increase of 49%). The increase in energy costs is almost totally due to the rising costs of purchasing energy over the year. Energy costs are also a major contributor to the £0.6 million increase in costs at the University's Tremough Campus. The University is extremely conscious of its carbon footprint and is one of the first universities to gain Carbon Trust status. The University has saved some 1,200 tonnes of carbon in the year through a variety of measures.

BUSINESS REVIEW

The University also came 14th in the People and Planet environmental performance league table of 127 universities.

Overall depreciation charges are £2.5 million higher at £14.1 million as a consequence of the University's capital programme.

CASH FLOW

The University's operating cash inflow was £21.6 million, a substantial increase of £8.5 million over 2007/08. This was primarily the result of the improved operating surplus.

The overall cash inflow for the year was £13.1 million. The movement of £8.5 million from the operating cash inflow of £21.6 million was mainly the result of capital expenditure, net of deferred capital grants received and receipts from disposal of fixed assets (net £18.4 million), offset by the net cash inflow from loan financing of £9.7 million. Cash withdrawn from short term deposits (£3.4 million) and returns on investments (£1.6 million) were offset by interest paid of £4.8 million.

Cash outflows arising from capital expenditure increased from £25.1 million in 2007/08 to £34.0 million in 2008/09 as the University's infrastructure plans move into delivery stage. Work in the year included the ongoing refurbishment of the Biosciences Geoffrey Pope Building, the extension of the Business School, refurbishment of the Houghton Library, upgrading the IT network and a new Indoor Cricket Centre. Capital grants received towards these projects are £14.3 million slightly up on 2007/08. Interest paid at £4.8 million was £1.0 million lower than 2007/08 reflecting the reduction in interest rates as a consequence of the Bank of England reducing base rates to support the economy. The downside of this policy is the reduction of £0.9 million in returns on short term investments.

The University operated within its bank covenants with Barclays Bank plc, National Westminster Bank plc, Royal Bank of Scotland plc and Lloyds TSB plc. Future financial scenario planning demonstrates that the University will continue to comply with its covenants in future. Bank covenant compliance is regularly monitored in a rapidly changing financial environment.

BALANCE SHEET

The University's net assets have fallen from £396.8 million to £376.5 million in the year. The principal cause of this reduction is the revaluation of the University's fixed assets combined with an increase in the net pension liability in respect of Exeter Retirement Benefits pension scheme. The pension scheme deficit increased from £5.3 million to £20.3 million. This increased deficit arises due to the fall in equity markets during the year and a higher value being placed on liabilities at year end due to the change in financial assumptions in respect of discount rates.

During the year the University has constructed £34.8 million of assets. In addition the University holds £8.1 million of fixed asset investments and £18.1 million of endowment assets. These are predominantly held in the form of equities. On 17 July 2009 the majority of the activities and assets, some £4.4 million, of the Exeter University Foundation (a charitable trust) were transferred to the University. In 2007/08 the Exeter University Foundation's financial statements were consolidated with the University for the first time and its portfolio of investments were classified as fixed asset investments in accordance with the Charities Statement of Recommended Practice. Following the transfer to the University these assets have been reclassified in accordance with the Further and Higher Education Statement of Recommended Practice and are now disclosed within fixed asset investments and endowment assets. This reclassification has contributed to the reduction in fixed asset investments (£3.5 million) and the increase in the value held as endowment assets (£2.1 million) – the remainder of the movement of £1.4 million being mainly losses recognised on disposal of fixed asset investments (£0.5 million) and a downward movement in market value (£0.6million) in endowment assets.

At the year end the University held £36.3 million in cash and £17.6 million in short term investments, mainly term deposits with banks and other financial institutions. Included in the total of £17.6 million is £2.0 million invested in Landsbanki Islands hf. The original investment was £2.5 million, but as a result of the collapse of Icelandic banks, this has been written down by 20% to reflect the expected recovery.

The total deposits of £53.9 million (2007/08 £44.2 million) are part of the University's build up of cash balances to meet the demands of the first phase of the University's infrastructure investment strategy.

The University's net debt remained broadly constant at £39.3 million. The increase in cash and deposits of £9.7 million was offset by a new term loan of £10.0 million drawn down from the University's existing loan facilities.

The University has a total loan facility with the National Westminster Bank plc and Barclays Bank plc of £165.0 million.

Of this facility a total of £93.0 million has been utilised. During the year the University drew down £10.0 million from the facility at a fixed interest rate to fund capital expenditure. The remaining £72.0 million undrawn element of the facility is available to the University over the period to July 2013 to be utilised to fund the investments identified in the Infrastructure Strategy.

The net current assets of the University have increased from £20.8 million to £22.5 million. The net liquidity days of the University are 106, well in excess of the minimum levels set by the University as stated below.

KEY FINANCIAL PERFORMANCE INDICATORS

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

Key financial performance indicator	Actual as at 31 July 2009	Early warning trigger	Maximum / minimum level
Payroll costs as a percentage of total income	55%	60%	62%
Cash and near cash	£53.5 million	£15.0 million	£15.0 million
Current ratio (including undrawn loan facility)	2.5	1.2	1.0
Net liquidity days	106	50	40
Loans as a percentage of total income	46%	65%	65%
Compliance with bank covenants	Full compliance	Full compliance	Full compliance

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

POST-BALANCE SHEET EVENTS

After the year end, the University completed two major transactions with its partners University Partnerships Programme (UPP) and INTO University Partnerships Limited.

On 23 September 2009 the University, with 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 a premium of £13.8million. UPP has a 43 year lease

concession from the University for the residences and development sites.

The University previously entered into an agreement with INTO University Partnerships Limited in December 2006 which included the lease of land for future development. On 22 October 2009 the University entered into a revised agreement by which INTO, through a property development company, will construct residences and a teaching block to support the operational side of INTO University of Exeter LLP in recruiting and teaching international students. The properties will be leased to INTO University of Exeter LLP by INTO University Partnerships Limited. Following the close of the transaction the University received a premium of £2.7 million including interest. INTO has a 35 year lease concession from the University for the residences and teaching sites.

JEREMY LINDLEY
 DIRECTOR OF FINANCE AND CORPORATE SERVICES
 25 November 2009

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

INTRODUCTION

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

PRINCIPLES OF OPERATION

The University conducts its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities which has been provided by the Committee of University Chairmen in its *Guide for Members of Higher Education Governing Bodies in the UK*. It also fully complies with the code of 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.

MANAGEMENT

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

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

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

- **The Senate** – is the academic authority of the University and draws its membership from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.

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

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

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

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

The 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.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

- **The Remuneration Committee** – is responsible for setting the remuneration of all senior staff including the Vice Chancellor's Executive Group (VCEG), Heads of School, Professors and senior staff within the Professional Services. The Committee is comprised of five lay governors together with the Vice-Chancellor and the Senior Deputy Vice-Chancellor. No member of staff is present for the discussion of their own remuneration.

The Committee has agreed that there should be two meetings of the Remuneration Committee within each calendar year: the first meeting (which takes place just before the financial year commences) agrees performance targets for VCEG and reviews remuneration strategy and comparative market data; the second meeting (which is held after the year end) reviews performance against the previous year's targets, decides on 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 the Head of School, the Deputy Vice Chancellor responsible for the School and the Director of Personnel and Staff Development who jointly produce a draft salary plan to reflect the strategy agreed by Remuneration Committee. Plans are then considered by VCEG which is responsible for ensuring consistency and equality of treatment in the review process. The finalised Professorial Salary Plan is then presented for approval to the second meeting of the Remuneration Committee. In parallel to this process the Registrar and Deputy Chief Executive develops a draft salary plan for senior professional staff. The plan reflects individuals' performance as assessed through the appraisal process and takes account of comparative market data. The plan, following consultation with the Deputy Vice-Chancellors, is discussed with the Vice Chancellor before it too is presented to the second meeting of the Remuneration Committee for approval. Remuneration Committee considers recommendations from the Vice-Chancellor and makes decisions on the salaries of VCEG members before finally, in closed session and informed by the findings of the annual Committee of University Chairmen (CUC) Survey of Vice-Chancellors' Remuneration, the Lay Members of Remuneration Committee decide the salary of the Vice-Chancellor.

These decisions are then summarised in a statement which appears in the Annual Report of the University.

The base salaries for the reported year are set towards the beginning of the year, (in this report for 2008/09 in the autumn of 2008) and reflect market circumstances applying at that time. The variable performance awards are set only after the year is finished and when financial results are available, allowing for a full appraisal of performance during the preceding financial year.

Great care is taken by the Committee to consider each individual's market position to ensure long term retention of high performing staff. Remuneration Committee also 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.

The Committee's assessment of performance for 2008/09 was that the full amount of variable reward should be paid to the members of VCEG (that is to say, 12.5% of salary) However, as VCEG has requested that salaries for 2009/10 should be frozen the Committee decided, at its discretion, that variable reward should also be held at the level of the previous year, resulting in percentage awards of less than 12.5% of salary.

As regards the future, the Remuneration Committee favours a close link between performance and reward and will be extending the use of performance linked incentive schemes to other members of senior management in 2010/11.

Details of this will be included in next years report.

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.

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

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

UNIVERSITY COMMITTEES

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

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

During the 2007/08 financial year, the University replaced many of the committees which had formerly reported into Strategy, Performance and Resources Committee on particular areas of the University's business. These areas are now governed through a mechanism known as dual assurance. This model involves two people – the first of these is a member of the Vice-Chancellor's Executive Group, who takes responsibility for the management and development of policy in a particular area of business.

The second member of the dual assurance partnership is a lay member of Council, knowledgeable in the same area, who provides assurance to Council that this activity is well-managed and that decisions have been reached following due process and appropriate consultation.

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

STATEMENT OF INTERNAL CONTROL

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

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively, and economically. This process has been in place for the year ended 31 July 2009 and up to the date of approval of the financial statements.

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

CORPORATE GOVERNANCE AND INTERNAL CONTROL STATEMENT

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

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

A system of key performance and risk indicators has been developed and these are continually updated. This, together with reports received from budget holders, department heads and project managers on internal control activities, ensures compliance is maintained.

The review of the effectiveness of the system of internal control is informed by the internal audit team contracted to Exeter, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Services in 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 review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

DISABLED EMPLOYEES

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

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

REGISTER OF INTERESTS

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

FURTHER INFORMATION

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

MEMBERSHIP OF COUNCIL

1. Mr D Allen: Registrar and Deputy Chief Executive (in attendance)
2. Mr M Jordan: Management Consultant
3. Ms S Wilcox: BT Regional Director for the South West
4. Mr K R Seal: Chair and Pro-Chancellor
5. Professor S M Smith: Vice-Chancellor and Chief Executive
6. Mrs S Buck: Director, BSW Consulting*
7. Mr P Lacey: Pro-Chancellor
8. Professor S Rippon: Director of Research, School of Humanities and Social Sciences
9. Professor R L Lamming: Director of The Business School*
10. Professor N Armstrong: Deputy Vice-Chancellor (International)
11. Mr N Bull: Corporate Finance Banking
12. Mr C J Allwood: Managing Director of Telegraph Group
13. Mr B M M Biscoe: Cornwall County Council
14. Mr R M P Hughes: Chair of Audit Committee and Pro-Chancellor (Finance)
15. Mr N Caiger: Management Consultant (in attendance)
16. Professor M Overton: Deputy Vice-Chancellor (External Affairs)
17. Professor R J P Kain CBE FBA: Deputy Vice-Chancellor (Research and Knowledge Transfer)
18. Professor K E Evans: Head of the School of Engineering, Mathematics and Physical Sciences*
19. Mr J Hutchinson: Chief Executive of the Students' Guild (in attendance)
20. Mr R Stearn: President of the Students' Guild
21. Mr M Choules: Senior Buildings Facilities Manager, St Luke's Campus*

* Appointed as Member of Council 1 August 2009

Members of Council 2009-10 not pictured:

Professor J M Kay: Senior Deputy Vice-Chancellor (Education)
The Right Revd the Lord Bishop of Exeter
Dame S Leather DBE: Chair of the Charity Commission
Sir Robin Nicholson FRS FREng: Former Professor of Metallurgy, Chief Scientific Adviser to the Cabinet Office
Mr H W J Stubbs: Solicitor (retired)
Lady Studholme: Privy Council Representative on the University Court
Ms B Rigg: Partner, Bond Pearce LLP

Members of Council whose appointment ended 31 July 2009:

Professor C Brace, Mr S Goddard, Dr J Barry, Mr J Cox, Professor T Naylor



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

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

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

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

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

INTERNAL FINANCIAL CONTROL

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

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

RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

- Financial Regulations supplemented by a comprehensive Financial Handbook, detailing financial controls and procedures, which is updated on an annual basis;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control, corporate governance and management of risk; and
- a formalised treasury and investment management policy.

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

The University currently contracts out the internal audit function to Mazars LLP.

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

The Corporate Governance Statement and Responsibilities of the Council of the University on pages 8 to 15 were approved by Council on 25 November 2009 and signed on its behalf by:

K. R. Seal Chair of Council

D. J. Allen Registrar and Deputy Chief Executive

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the University's and Group's financial statements for the year ended 31 July 2009 which comprise the Statement of Principal Accounting Policies, Consolidated Income and Expenditure Account, Note of Historical Cost Results, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement and related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

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

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described in the statement Responsibilities of the Council of the University, the University's Council is responsible for ensuring that the Business Review and the financial statements are prepared in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Charter and Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the Financial Memorandum with the Training and Development Agency for Schools. We also report to you whether in our opinion the Business Review is not consistent with the financial statements.

In addition we report to you if, in our opinion, the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We read the Business Review and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

BASIS OF AUDIT OPINION

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

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

INDEPENDENT AUDITORS REPORT TO THE COUNCIL OF THE UNIVERSITY OF EXETER

OPINION

In our opinion:

- i) the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the University's and group affairs as at 31 July 2009 and of the University's and Group's surplus of income over expenditure for the year then ended;
- ii) the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- iii) in all material respects, income from the Higher Education Funding Council for England, and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2009 have been applied for the purposes for which they were received; and
- iv) in all material respects, income during the year ended 31 July 2009 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the Financial Memorandum with the Training and Development Agency for Schools.

S. R. Clark
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
2 Cornwall Street
Birmingham
B3 2DL

30 November 2009

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. GENERAL

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

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

2. BASIS OF CONSOLIDATION

The results of the University's subsidiary undertakings and undertakings that it has a controlling interest in have been consolidated in the financial statements and details of these are provided in note 12.

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

The activities of the University of Exeter Student's Guild have not been consolidated on the grounds that the University does not operate dominant influence over its activities. Details of these are provided in note 31.

3. RECOGNITION OF INCOME

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

Tuition fees represent all fees chargeable to students or their sponsors received and receivable attributable to the current accounting period net of discounts. The costs of any fees waived by the University are deducted from tuition fee income and reported in note 2.

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

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

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

The University acts as an agent in the collection and payment of hardship funds and training bursaries from the funding bodies. Related receipts from the HEFCE and Training and Development Agency for Schools (TDA) and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in notes 34 to 37.

4. FOREIGN CURRENCIES

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

5. PENSION SCHEMES AND OTHER POST-RETIREMENT BENEFITS

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

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

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

The assets of the USS scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the University is unable to separately identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

Further information on both the USS and ERBS pension schemes and post-retirement benefits is disclosed in note 29.

6. REPAIRS AND MAINTENANCE

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

7. TAXATION

No provision for taxation, deferred or otherwise, has been made in the University's accounts as it is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

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

8. LAND AND BUILDINGS

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

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

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

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

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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

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

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

9. MAJOR REFURBISHMENTS

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

10. EQUIPMENT

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

Equipment, including computers and software, that collectively have a cost equal to or greater than £25,000 where the assets are functionally interdependent or are purchased together and intended to be used for a common purpose and are under common management control are capitalised.

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

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

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

11. LEASED ASSETS

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

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

12. CHARITABLE DONATIONS

Unrestricted donations

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

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

Endowment funds

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

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

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

13. INVESTMENTS

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

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

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

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

14. STOCK

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

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

15. CASH FLOWS AND LIQUID RESOURCES

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

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

16. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

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

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

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

UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2009

	Note	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
INCOME			
Funding body grants	1	67,670	63,544
Tuition fees and education contracts	2	60,037	45,507
Research grants and contracts	3	33,313	24,497
Other income (incl. share of joint ventures)	4	49,633	46,805
Endowment and investment income	5	1,721	4,216
Other financial income	29	—	772
Total income		<u>212,374</u>	<u>185,341</u>
Less: Share of income from joint ventures	13	(9,164)	(6,600)
Net Income		<u>203,210</u>	<u>178,741</u>
EXPENDITURE			
Staff costs	6	112,190	100,480
Other operating expenses	7	68,970	58,460
Depreciation	7	14,100	11,594
Interest payable	8	4,754	4,930
Other financial expenditure	29	121	—
Total expenditure		<u>200,135</u>	<u>175,464</u>
Operating surplus		3,075	3,277
Share of operating surplus/(deficit) in joint ventures	13	228	(866)
Total operating surplus		<u>3,303</u>	<u>2,411</u>

UNIVERSITY OF EXETER
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
— for the year ended 31 July 2009

	Note	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Total operating surplus		3,303	2,411
Exceptional items: continuing operations			
Surplus on disposal of land and buildings	9	402	1,628
Impairment of land and buildings	9	–	(2,805)
Refinancing charges	9	62	(4,402)
Loss on investments	9	(500)	–
Surplus/(deficit) on continuing operations		3,267	(3,168)
Transferred from accumulated income in endowment funds	14/20	383	206
Surplus/(deficit) for the year	10	3,650	(2,962)

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

NOTE OF HISTORICAL COST RESULTS

Surplus/(deficit) for the year		3,650	(2,962)
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	21	4,512	4,522
Release of previous years property revaluation surpluses on current year disposals and impairments	21	542	477
Historical cost surplus for the year		8,704	2,037

UNIVERSITY OF EXETER
STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS
AND LOSSES — for the year ended 31 July 2009

	Note	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Surplus/(deficit) on continuing operations		3,267	(3,168)
Revaluation loss on tangible assets	21	(15,570)	–
Revaluation loss on impairment of tangible fixed assets	21	–	(14,331)
Revaluation gain/(loss) on fixed asset investments	21	170	(1,829)
(Depreciation)/Appreciation of endowment asset investments	14/20	(632)	(2,366)
New endowments	14/20	729	12
Transfer income previously recognised to deferred capital grants		(674)	–
Actuarial loss on pension scheme	29	(15,415)	(3,354)
Actuarial (loss)/gain on pension scheme in joint venture		(155)	13
Total recognised losses in the year		<u>(28,280)</u>	<u>(25,023)</u>
Prior year adjustments: Endowments			(40)
Prior year adjustments: Exeter University Foundation			6,076
Total recognised losses since last financial statements			<u>(18,987)</u>
Reconciliation			
Opening reserves and endowments – as previously reported		303,541	322,528
Prior year adjustments: Endowments		–	(40)
Prior year adjustments: Exeter University Foundation		–	6,076
Opening reserves and endowments – restated		<u>303,541</u>	<u>328,564</u>
Total recognised losses for the year		<u>(28,280)</u>	<u>(25,023)</u>
Closing reserves and endowments		<u>275,261</u>	<u>303,541</u>

The 2008 prior year adjustment relates to the new 'Statement of Recommended Practice (SORP): Accounting for Further and Higher Education' issued in June 2007 and the consolidation of the Exeter University Foundation for the first time.

UNIVERSITY OF EXETER
BALANCE SHEETS AS AT 31 JULY 2009

	Notes	Group		University	
		2009 £'000	2008 £'000	2009 £'000	2008 £'000
Fixed assets					
Tangible assets	11	440,528	436,242	440,546	436,174
Investments	12	8,147	11,665	10,357	8,152
Investments in joint ventures	13	1,370	1,463	–	–
		<u>450,045</u>	<u>449,370</u>	<u>450,903</u>	<u>444,326</u>
Endowment asset investments	14	18,102	15,974	18,102	15,974
Current assets					
Stock		514	571	513	571
Debtors: amounts falling due within one year	15	22,181	22,368	22,677	23,994
Debtors: amounts falling due after more than one year	15	472	–	472	–
Investments		17,600	21,000	17,600	21,000
Cash at bank and in hand		36,318	23,196	35,887	22,192
		<u>77,085</u>	<u>67,135</u>	<u>77,149</u>	<u>67,757</u>
Creditors: amounts falling due within one year	16	(54,605)	(46,344)	(54,359)	(46,018)
Net current assets		<u>22,480</u>	<u>20,791</u>	<u>22,790</u>	<u>21,739</u>
Total assets less current liabilities		<u>490,627</u>	<u>486,135</u>	<u>491,795</u>	<u>482,039</u>
Creditors: amounts falling due after more than one year	17	(92,978)	(83,180)	(94,809)	(85,135)
Less: Provisions for liabilities	18	(846)	(893)	(846)	(893)
Total net assets excluding pension liability		<u>396,803</u>	<u>402,062</u>	<u>396,140</u>	<u>396,011</u>
Net pension liability	29	(20,255)	(5,308)	(20,255)	(5,308)
Total net assets including pension liability		<u>376,548</u>	<u>396,754</u>	<u>375,885</u>	<u>390,703</u>
Deferred capital grants	19	101,287	93,213	101,287	93,213
Endowments					
Expendable	20	4,511	1,709	4,511	1,709
Permanent	20	13,591	14,265	13,591	14,265
		<u>18,102</u>	<u>15,974</u>	<u>18,102</u>	<u>15,974</u>
Reserves					
Income and expenditure reserve (excl. Pension reserve)		47,651	42,658	50,090	39,771
Pension Reserve		(20,255)	(5,308)	(20,255)	(5,308)
Income and expenditure reserve (incl. Pension reserve)	22	27,396	37,350	29,835	34,463
Revaluation reserve	21	229,763	250,217	226,661	247,053
Total reserves		<u>257,159</u>	<u>287,567</u>	<u>256,496</u>	<u>281,516</u>
TOTAL		<u>376,548</u>	<u>396,754</u>	<u>375,885</u>	<u>390,703</u>

The financial statements on pages 18 to 66 were approved by Council on 25 November 2009 and signed on its behalf by:
Professor S. Smith – Vice-Chancellor and Chief Executive *J. C. Lindley* – Director of Finance and Corporate Services

UNIVERSITY OF EXETER
CONSOLIDATED CASH FLOW STATEMENT
— for the year ended 31 July 2009

	Note	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Cash inflow from operating activities	23	21,302	13,052
Returns on investments and servicing of finance	24	(3,146)	(3,313)
Taxation		—	—
Capital expenditure and financial investment	25	(18,184)	1,193
Management of liquid resources	26	3,400	(12,950)
Financing	27	9,750	4,171
Increase in cash in the year	28	<u>13,122</u>	<u>2,153</u>

Reconciliation of net cash flow to movement in net debt

		2009 £'000	2008 £'000
Increase in cash in the year	28	13,122	2,153
Cash (inflow) from new secured loans	27	(10,000)	(82,690)
Cash outflow from repayment of loans	27	250	78,519
Cash (inflow)/outflow from liquid resources	26	<u>(3,400)</u>	<u>12,950</u>
Movement in net debt in the year		(28)	10,932
Net debt at 1 August		<u>(39,235)</u>	<u>(50,167)</u>
Net debt at 31 July	28	<u>(39,263)</u>	<u>(39,235)</u>

NOTES TO THE ACCOUNTS

NOTE 1 – FUNDING BODY GRANTS

	Year Ended 31 July 2009			Year Ended
	HEFCE £'000	TDA £'000	TOTAL £'000	31 July 2008 £'000
Recurrent teaching grant	43,272	3,351	46,623	41,514
Recurrent research grant	14,978	–	14,978	14,585
Specific grants	2,864	652	3,516	4,885
Deferred capital grants released in year (note 19)	2,553	–	2,553	2,560
	63,667	4,003	67,670	63,544

NOTE 2 – TUITION FEES AND EDUCATION CONTRACTS

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Home/EU undergraduates: full-time	29,449	22,310
Home/EU undergraduates: part-time	209	267
Home/EU postgraduates: full-time	6,959	6,358
Home/EU postgraduates: part-time	2,863	1,988
International students	18,673	12,316
Non-credit bearing courses and other tuition fees	1,695	2,071
Research Training Support Grants	189	197
	60,037	45,507

NOTE 3 – RESEARCH GRANTS AND CONTRACTS

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Research councils	13,259	10,730
UK based charities	3,664	3,077
UK central government, local authorities, health & hospital authorities	9,352	5,921
UK industry, commerce and public corporations	3,797	2,360
European Union government and other bodies	2,173	1,771
Other grants and contracts	1,068	638
	33,313	24,497

Included above are deferred capital grants released in the year of £1,240,000 (2008: £451,000) (see note 19).

NOTES TO THE ACCOUNTS

NOTE 4 – OTHER INCOME

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Residences, catering and conferences	21,824	21,315
Other services rendered		
Validation fees	164	139
UK central government, local authorities, health and hospital authorities	1,277	1,122
Others	250	721
Income from health and hospital authorities	3,712	3,280
Other operating income		
Other external grants	1,981	2,814
Summer schools, fair and degree day income	831	654
Donations and other fundraising	1,453	1,360
Erasmus	664	490
Sports and swimming pools	919	777
Externally recharged staff time	303	442
Supplies and services to external customers	363	415
Rental income and room hire	1,200	873
Peninsula College of Medicine and Dentistry	59	207
Tremough Campus Services	4,619	3,952
INTO University of Exeter LLP	4,545	2,649
Release of deferred capital grants (note 19)	1,359	1,257
Other income	4,110	4,338
	<u>49,633</u>	<u>46,805</u>

NOTE 5 – ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Income from expendable endowments (note 20)	14	36
Income from permanent endowments (note 20)	509	542
Income from short term investments	1,322	2,492
Income from fixed asset investments	275	292
(Deficit)/surplus on disposal of fixed asset investments	(529)	668
Other interest receivable	130	186
	<u>1,721</u>	<u>4,216</u>

NOTES TO THE ACCOUNTS

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 2009 Number	Year Ended 31 July 2008 Number
Academic staff	624	623
Research staff	291	268
Teaching fellows (formerly tutors)	75	58
Occasional lecturers	37	33
Support staff	1,632	1,576
Casuals	128	132
	<hr/>	<hr/>
Total	2,787	2,690

Staff costs for the above persons:

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Salaries and wages	94,507	84,379
Social security costs	6,678	6,007
Pension costs (note 29)	11,005	10,094
	<hr/>	<hr/>
	112,190	100,480
	<hr/>	<hr/>
Emoluments of the Vice-Chancellor and Chief Executive:		
Non-performance related remuneration (including benefits in kind)	265	235
Performance related remuneration	30	26
Pension contributions to USS	44	40
	<hr/>	<hr/>
	339	301

Emoluments for senior staff are determined by the Remuneration Committee as set out in the Corporate Governance and Internal Control Statement on page 8.

NOTES TO THE ACCOUNTS

NOTE 6 – STAFF COSTS contd

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

	Year Ended 31 July 2009	Year Ended 31 July 2008
£100,000 – £109,999	4	–
£110,000 – £119,999	5	7
£120,000 – £129,999	3	3
£130,000 – £139,999	6	1
£150,000 – £159,999	1	1
£160,000 – £169,999	1	–
£170,000 – £179,999	–	1
£180,000 – £189,999	1	–
£200,000 – £209,999	1	–
£230,000 – £139,999	1	–
£240,000 – £249,999	–	1
£260,000 – £269,999	–	1
£290,000 – £299,999	1	–

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

NOTES TO THE ACCOUNTS

NOTE 7 – OTHER OPERATING EXPENSES

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Residences, catering and conferences	9,157	8,415
Rents and rates	760	540
Heat, light, water and power	3,174	3,338
Repairs and general maintenance	3,106	3,049
Laboratory equipment and consumables	3,999	3,467
IT hardware, software and licences	2,097	2,580
Other equipment	3,328	1,586
Books and periodicals	3,432	2,474
Non-contract staff and external examiners	5,270	5,618
Administrative costs including postage and telephones	2,702	2,348
Insurances	638	457
Publicity, publications and student recruitment	1,912	1,581
Travel, accommodation, subsistence and hospitality	5,937	4,935
Fellowships, scholarships and prizes	10,861	7,679
Field courses and other student support	4,481	4,822
Legal, professional and consultancy fees	3,326	2,671
Auditor's remuneration	80	55
Auditor's remuneration in respect of non-audit services	76	37
Cornwall Combined Services	2,660	2,092
Other expenses	1,974	716
	<u>68,970</u>	<u>58,460</u>

Included within Auditor's remuneration is the external audit fee for the University of £79,000 (2008: £55,00).

NOTES TO THE ACCOUNTS

NOTE 7 – OTHER OPERATING EXPENSES contd

ANALYSIS OF EXPENDITURE BY ACTIVITY

2008/09	Staff Costs £'000	Other Operating Expenses £'000	Depreciation £'000	Interest Payable £'000	Total £'000
Academic schools	56,689	16,977	581	–	74,247
Academic services	7,996	5,616	170	–	13,782
Research grants and contracts	17,419	8,732	1,241	–	27,392
Residences, catering and conferences	6,617	8,917	3,251	2,936	21,721
Premises	6,475	9,923	8,671	1,769	26,838
Administration and central services	17,260	17,819	186	49	35,314
Other expenses	(266)	986	–	–	720
	112,190	68,970	14,100	4,754	200,014

The depreciation charge has been funded by:

Deferred capital grants released – buildings (note 19)	2,672
Deferred capital grants released – equipment (note 19)	2,480
Revaluation reserve released (note 21)	4,512
General income	4,436
	14,100

NOTES TO THE ACCOUNTS

NOTE 7 – OTHER OPERATING EXPENSES *contd*

ANALYSIS OF EXPENDITURE BY ACTIVITY

2007/08

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

The depreciation charge has been funded by:

Deferred capital grants released – buildings	2,612
Deferred capital grants released – equipment	1,656
Revaluation reserve released	4,522
General income	2,804
	11,594

Included within 'Legal, professional and consultancy fees' is £64,000 (2008: £98,000) relating to internal audit fees.

NOTE 8 – INTEREST PAYABLE

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
On bank loans and overdrafts:		
Repayable wholly or partly in more than 5 years	4,754	4,930
	4,754	4,930

NOTES TO THE ACCOUNTS

NOTE 9 – EXCEPTIONAL ITEMS

	Year Ended 31 July 2009 £'000	Year Ended 31 July 2008 £'000
Surplus on disposal of land and buildings (note 9A)	(402)	(1,628)
Impairment of land and buildings (note 9B)	–	2,805
Refinancing charges (note 9C)	(62)	4,402
Loss on investments (note 9D)	500	–
	<hr/> 36 <hr/>	<hr/> 5,579 <hr/>

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

During the year various off-campus sites were sold (four outlying houses). The proceeds from these sales were reinvested into the University's strategic aims.

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

NOTE 9B – EXCEPTIONAL ITEM - IMPAIRMENT OF LAND AND BUILDINGS

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

See note 32 for further details.

NOTE 9C – EXCEPTIONAL ITEM - REFINANCING CHARGES

During the previous year the University consolidated its existing bank loans and arranged further finance to support its strategic aims under the Finance Strategy and Infrastructure Strategy. The new bank facilities were fixed at lower interest rates than the existing loans but the refinancing resulted in breakage charges of £4.3m.

See note 17 for details of the bank loan facilities.

NOTE 9 – EXCEPTIONAL ITEMS contd

NOTE 9D – EXCEPTIONAL ITEM - LOSS ON INVESTMENTS

On 18 April 2008 the University of Exeter on behalf of the Peninsula College of Medicine and Dentistry (PCMD) placed £1m with the Icelandic bank, Landsbanki Islands hf. The deposit was placed in line with the University of Exeter's investment policy and per the terms of the PCMD Memorandum of Agreement that ensured that no more than £3 million was held in a single bank or £5 million in the case of UK clearing banks. At this date Landsbanki Islands hf had the appropriate short term credit rating with Fitch (F1) and Moodys (P1). It was due to mature on 20 October 2008.

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

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

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

NOTE 10 – SURPLUS/(DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR

The surplus/(deficit) on continuing operations for the year is made up as follows:

	Year Ended 31 July 2009	Year Ended 31 July 2008 Restated
	£'000	£'000
University's surplus/(deficit) for the year on continuing operations	5,411	(2,781)
Deficit generated by subsidiary undertakings and joint ventures	(2,144)	(387)
Consolidated surplus/(deficit) on continuing operations	<u>3,267</u>	<u>(3,168)</u>
Deficit for the year transferred from accumulated income in endowment funds	383	206
Consolidated surplus/(deficit) for the year	<u>3,650</u>	<u>(2,962)</u>

NOTES TO THE ACCOUNTS

NOTE 11 – TANGIBLE FIXED ASSETS

Group	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2008	423,921	37,851	20,517	482,289
Additions	25,084	310	9,384	34,778
Disposals (note 9A)	(815)	(48)	(269)	(1,132)
On revaluation	(38,298)	(1,463)	–	(39,761)
At 31 July 2009	409,892	36,650	29,632	476,174
Depreciation				
At 1 August 2008	33,101	3,076	9,870	46,047
Charge for the year (note 7)	8,686	1,200	4,214	14,100
Disposals (note 9A)	(35)	(7)	(268)	(310)
On revaluation	(22,356)	(1,835)	–	(24,191)
At 31 July 2009	19,396	2,434	13,816	35,646
Net Book Value				
At 31 July 2009	390,496	34,216	15,816	440,528
At 31 July 2008	390,820	34,775	10,647	436,242
Financed by capital grant	63,954	30,080	7,253	101,287
Other	326,542	4,136	8,563	339,241
At 31 July 2009	390,496	34,216	15,816	440,528

- 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 £65.3m (2008: £62.3m) have been financed, in whole or in part, by exchequer funds. If the University fails one of two 'trigger events' noted in the Financial Memorandum with HEFCE, then the full amount of the exchequer interest would become repayable.
- c) At 31 July 2009 freehold and leasehold land and buildings included £16.6m (2008: £10.1m) in respect of buildings under construction.
- d) Included in the cost of freehold land and buildings is £1.1m (2008: £1.1m) bank loan interest payable that has been capitalised. These finance costs are directly attributable to the construction of student residences and were capitalised as part of the cost of those assets whilst they were in the course of construction.
- e) Long leasehold land and buildings comprise the Tremough Campus, which is held under a 125 year lease.

NOTES TO THE ACCOUNTS

NOTE 11 – TANGIBLE FIXED ASSETS contd

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2008	424,026	37,803	20,344	482,173
Additions	25,084	310	9,384	34,778
Disposals (note 9A)	(815)	–	(272)	(1,087)
On revaluation	(38,298)	(1,463)	–	(39,761)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2009	409,997	36,650	29,456	476,103
	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation				
At 1 August 2008	33,101	3,068	9,830	45,999
Charge for the year	8,686	1,200	4,170	14,056
Disposals (note 9A)	(35)	–	(272)	(307)
On revaluation	(22,356)	(1,835)	–	(24,191)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2009	19,396	2,433	13,728	35,557
	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value				
At 31 July 2009	390,601	34,217	15,728	440,546
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2008	390,925	34,735	10,514	436,174
	<hr/>	<hr/>	<hr/>	<hr/>

As stated in the Statement of Principal Accounting Policies the University adopts the policy of revaluing land and buildings. The external chartered surveyors, Messrs. King Sturge, performed the interim valuation as at 31 July 2009 (the previous full valuation was at 31 July 2006) on the basis of Existing Use Value or Depreciated Replacement Cost according to the nature and use of each building. This valuation has been prepared in accordance with the Valuation Standards published by the Royal Institution of Chartered Surveyors. The valuations at this date were as follows:

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

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

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

	Group £'000	University £'000
Freehold land and buildings	171,613	171,719
Long leasehold land and buildings	31,173	31,173

NOTES TO THE ACCOUNTS

NOTE 12 – INVESTMENTS

	Group		University	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Fine art collection	1,435	1,279	1,435	1,279
Library special collection	2,354	2,354	2,354	2,354
Listed investments	4,316	7,990	4,316	2,267
Subsidiary undertakings	–	–	2,210	2,210
Other investments	42	42	42	42
	8,147	11,665	10,357	8,152

The University's fine art collection of paintings, drawings, sculptures, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2009 by external Fine Art Auctioneers and Valuers, Messrs. Bearnès Hampton and Littlewood, on an open market value basis. The amount of the valuation, including the increase of £156,000 is detailed above.

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

During the year, the majority of the activities of the Exeter University Foundation were transferred to the University. This transfer included its portfolio of investments, some of which are now recognised within endowments in the University's books (see notes 14 and 20).

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

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

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

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

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

NOTE 12 – INVESTMENTS contd

Other investments of the University comprise the following:

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

The Exeter University Foundation

The activities of the Exeter University Foundation (Foundation), a registered charity, are consolidated on the grounds that the University has a controlling influence over its activities.

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

The transfer has been approved by the Charity Commission.

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

NOTE 13 – INVESTMENT IN JOINT VENTURES

Peninsula College of Medicine and Dentistry

The Peninsula College of Medicine and Dentistry (PCMD) is not a legal entity in its own right - it is a joint arrangement entered into by the University of Exeter and the University of Plymouth. A 50% share of the income, expenditure and balance sheet items of the "HE Community Chest" of PCMD (excluding research) is included within the income and expenditure account and balance sheet of each of the Universities. The items comprising the externally funded research activity of PCMD are included within the statements of the university employing each project's Principal Investigator.

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

See note 38 for a detailed analysis of PCMD.

Tremough Campus Services

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

NOTES TO THE ACCOUNTS

NOTE 13 – INVESTMENT IN JOINT VENTURES contd

Tremough Campus Services contd

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

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

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

INTO University of Exeter LLP

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

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

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

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

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

	2009	2008
	£'000	£'000
Share of income:		
Tremough Campus Services	4,619	3,951
INTO University of Exeter LLP	4,545	2,649
	<u>9,164</u>	<u>6,600</u>
Share of operating surplus/(deficit):		
Tremough Campus Services	(317)	(494)
INTO University of Exeter LLP	545	(372)
	<u>228</u>	<u>(866)</u>
Share of gross assets:		
Tremough Campus Services	28,538	19,740
INTO University of Exeter LLP	4,568	2,658
	<u>33,106</u>	<u>22,398</u>
Share of gross liabilities:		
Tremough Campus Services	(27,090)	(17,822)
INTO University of Exeter LLP	(4,646)	(3,113)
	<u>(31,736)</u>	<u>(20,935)</u>
Share of net assets/(liabilities):		
Tremough Campus Services	1,448	1,918
INTO University of Exeter LLP	(78)	(455)
	<u>1,370</u>	<u>1,463</u>

NOTES TO THE ACCOUNTS

NOTE 14 – ENDOWMENT ASSET INVESTMENTS – Group and University

	2009	2008
	£'000	£'000
Balance at 1 August – as previously reported	15,974	18,997
Prior year adjustment – Endowments	–	(463)
Balance at 1 August – restated	15,974	18,534
New endowments invested	729	12
New endowments invested – transferred from income and expenditure reserves	2,414	–
(Decrease) / Increase in market value of investments	(632)	(2,366)
(Decrease) in cash balances held for endowment funds	(383)	(206)
Balance at 31 July	18,102	15,974
The investments comprise:		
Fixed interest stocks	3,733	2,392
Equities	14,259	10,949
Property	110	105
Bank balances	–	2,528
	18,102	15,974

During the year, the majority of the activities of the Exeter University Foundation were transferred to the University.

This transfer included its portfolio of investments which were recognised through the income and expenditure account in previous year's consolidation.

See note 12 for further details.

NOTE 15 – DEBTORS

	Group		University	
	2009	2008	2009	2008
	£'000	£'000	£'000	£'000
<u>Amounts falling due within one year:</u>				
Debtors	10,230	10,655	10,389	10,646
Prepayments and accrued income	11,158	10,633	11,096	10,543
Amounts owed by group undertakings:				
Subsidiary companies	–	–	399	1,725
Related parties	793	1,080	793	1,080
	22,181	22,368	22,677	23,994
<u>Amounts falling due after more than one year:</u>				
Prepayments and accrued income	472	–	472	–
	22,653	22,368	23,149	23,994

NOTES TO THE ACCOUNTS

NOTE 16 – CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank loans and overdrafts (note 17)	1	1	1	1
Research grants received on account	12,009	7,528	12,009	7,528
Trade creditors	20,894	16,082	20,740	16,060
Other creditors	14,120	11,952	14,179	11,952
Social security and other taxation payable	2,549	2,577	2,549	2,561
Accruals and deferred income	5,032	8,204	4,881	7,916
	<u>54,605</u>	<u>46,344</u>	<u>54,359</u>	<u>46,018</u>

Other creditors include an amount of £1,627,000 (2008: £632,000) due in respect of pension liabilities following early retirements.

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

	Group		University	
	2009 £'000	2008 £'000	2009 £'000	2008 £'000
Bank loans (see below)	92,690	82,690	92,690	82,690
Inherited Liability – Cornwall County Council	43	44	43	44
Other long term creditors	245	446	245	446
Amounts owed to group undertakings:				
Subsidiary companies	–	–	1,831	1,955
	<u>92,978</u>	<u>83,180</u>	<u>94,809</u>	<u>85,135</u>

Other long-term creditors include an amount of £245,000 (2008: £446,000) due in respect of pension liabilities following early retirements.

a) Bank loans and overdrafts

	2009 £'000	2008 £'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	1	1
Bank loans:		
In two to five years	2,756	–
In five years or more	89,934	82,690
	<u>92,691</u>	<u>82,691</u>

NOTES TO THE ACCOUNTS

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

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

	Facility	Interest Rate	Repayment	Term	2009	2008
	£'000	%			£'000	£'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		4.38	Quarterly	34 years (to 2043)	10,000	–
					<hr/>	<hr/>
					92,690	82,690
Repayable within one year					–	–
					<hr/>	<hr/>
					92,690	82,690
					<hr/>	<hr/>

During the year ended 31 July 2008 the University consolidated its existing bank loans and arranged further finance to support its strategic aims under the Finance Strategy and Infrastructure Strategy. The new bank loans are unsecured. However, the University has a negative pledge obligation to each of the lenders, whereby it will not grant any security over any of its assets. The University is also not permitted to dispose of any of its assets other than in the ordinary course of its business without the National Westminster Bank Plc's written consent.

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

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

NOTES TO THE ACCOUNTS

NOTE 18 – PROVISIONS - Group and University

	Building works £'000
Balance at 1 August	893
Utilised in year	(47)
Balance at 31 July	<u>846</u>

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

All the initial accounting entries were made in the year ended 31 July 2007. The demolition works totalled £872,000 and was included within 'Repairs and general maintenance' whilst the enhancement of infrastructure work totalled £1,027,000 and was capitalised in 'Land and Buildings'.

NOTE 19 – DEFERRED CAPITAL GRANTS – Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2008			
Land and buildings	46,373	38,976	85,349
Equipment	5,839	2,025	7,864
	<u>52,212</u>	<u>41,001</u>	<u>93,213</u>
Grants receivable			
Land and buildings	7,826	3,530	11,356
Equipment	5	1,865	1,870
	<u>7,831</u>	<u>5,395</u>	<u>13,226</u>
Released to Income and Expenditure Account			
Land and buildings	1,455	1,217	2,672
Equipment	1,098	1,382	2,480
	<u>2,553</u>	<u>2,599</u>	<u>5,152</u>
At 31 July 2009			
Land and buildings	52,744	41,289	94,033
Equipment	4,746	2,508	7,254
	<u>57,490</u>	<u>43,797</u>	<u>101,287</u>
Released to Income and Expenditure Account			
Funding body grants			2,553
Research grants and contracts			1,240
Other income			1,359
			<u>5,152</u>

NOTES TO THE ACCOUNTS

NOTE 20 – ENDOWMENTS – Group and University

		Restricted Permanent £'000	Restricted Expendable £'000	2009 Total £'000	2008 Total £'000
At 1 August:	Capital	13,970	1,708	15,678	18,226
	Accumulated income	295	1	296	308
		<u>14,265</u>	<u>1,709</u>	<u>15,974</u>	<u>18,534</u>
	New endowments	–	729	729	12
	New endowments transferred from income and expenditure reserves	–	2,414	2,414	–
		<u>–</u>	<u>3,143</u>	<u>3,413</u>	<u>12</u>
	Investment income	509	14	523	578
	Expenditure	(478)	(428)	(906)	(784)
		<u>31</u>	<u>(414)</u>	<u>(383)</u>	<u>(206)</u>
	(Decrease) / Increase in market value of investments	(705)	73	(632)	(2,366)
	At 31 July	<u>13,591</u>	<u>4,511</u>	<u>18,102</u>	<u>15,974</u>
Represented by:	Capital	13,266	4,511	17,777	15,678
	Accumulated income	325	–	325	296
		<u>13,591</u>	<u>4,511</u>	<u>18,102</u>	<u>15,974</u>

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

Represented:	2009 £'000	2008 £'000
Trustees Security Pool	2,790	2,928
Institute for Arab and Islamic Studies	11,468	12,098
PMS Vandervell	782	948
Fundraising	3,062	–
	<u>18,102</u>	<u>15,974</u>

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

See note 12 for further details.

NOTES TO THE ACCOUNTS

NOTE 21 – REVALUATION RESERVE

Group	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2008	245,482	4,735	250,217
Revaluation in the year			
Land and buildings	(15,570)	–	(15,570)
Fixed assets investments – Fine art	–	155	155
Fixed assets investments – Quoted shares	–	15	15
	(15,570)	170	(15,400)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(4,512)	–	(4,512)
Release of previous years property revaluation surpluses on current year disposals	(542)	–	(542)
	(5,054)	–	(5,054)
At 31 July 2009	224,858	4,905	229,763
University	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2008	242,318	4,735	247,053
Revaluation in the year			
Land and buildings	(15,570)	–	(15,570)
Fixed assets investments – Fine art	–	155	155
Fixed assets investments – Quoted shares	–	15	15
	(15,570)	170	(15,400)
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(4,450)	–	(4,450)
Release of previous years property revaluation surpluses on current year disposals	(542)	–	(542)
	(4,992)	–	(4,992)
At 31 July 2009	221,756	4,905	226,661

NOTES TO THE ACCOUNTS

NOTE 22 – INCOME AND EXPENDITURE RESERVE

	Group		University		
	2009	2008	2009	2008	
	£'000	£'000	£'000	£'000	
Balance at 1 August	37,350	38,654	34,463	35,455	
Surplus/(deficit) for the year	3,650	(2,962)	5,794	(2,575)	
Transfers from revaluation reserve	5,054	4,999	4,992	4,937	
Other movements	(18,658)	(3,341)	(15,414)	(3,354)	
Balance at 31 July	<u>27,396</u>	<u>37,350</u>	<u>29,835</u>	<u>34,463</u>	
Represented by	Balance at	Result for	Revaluation	Other	Balance at
Group	1 August 2008	the year	Reserve	Movements	31 July 2009
	£'000	£'000	£'000	£'000	£'000
Available reserves					
Schools	1,924	14,316	–	(8,275)	7,965
Professional Services	2,347	759	–	(1,816)	1,290
Strategic Development Fund	3,749	(203)	–	999	4,545
Infrastructure Fund	3,583	(3,086)	–	2,358	2,855
Fundraising	–	1,927	–	–	1,927
Other reserves	1,959	(1,508)	–	602	1,053
General reserve	7,073	(9,023)	5,054	2,809	5,913
	<u>20,635</u>	<u>3,182</u>	<u>5,054</u>	<u>(3,323)</u>	<u>25,548</u>
Committed reserves					
Capital reserve	30,266	–	–	80	30,346
Residences equalisation	(8,243)	–	–	–	(8,243)
Pension liability	(5,308)	468	–	(15,415)	(20,255)
	<u>16,715</u>	<u>468</u>	<u>–</u>	<u>(15,335)</u>	<u>1,848</u>
Total Group reserves	<u>37,350</u>	<u>3,650</u>	<u>5,054</u>	<u>(18,658)</u>	<u>27,396</u>

NOTES TO THE ACCOUNTS

NOTE 22 – INCOME AND EXPENDITURE RESERVE contd

University	Balance at 1 August 2008 £'000	Result for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2009 £'000
Available reserves					
Schools	1,924	14,316	–	(8,275)	7,965
Professional Services	2,347	759	–	(1,816)	1,290
Strategic Development Fund	3,749	(203)	–	999	4,545
Infrastructure Fund	3,583	(3,086)	–	2,358	2,855
Fundraising	–	1,927	–	–	1,927
Other reserves	1,959	(1,508)	–	602	1,053
General reserve	4,187	(6,879)	4,992	6,052	8,352
	<u>17,749</u>	<u>5,326</u>	<u>4,992</u>	<u>(80)</u>	<u>27,987</u>
Committed reserves					
Capital reserve	30,266	–	–	80	30,346
Residences equalisation	(8,243)	–	–	–	(8,243)
Pension liability	(5,308)	468	–	(15,415)	(20,255)
	<u>16,715</u>	<u>468</u>	<u>–</u>	<u>(15,335)</u>	<u>1,848</u>
Total University reserves	<u>34,464</u>	<u>5,794</u>	<u>4,992</u>	<u>(15,415)</u>	<u>29,835</u>

NOTE 23 – RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS/(DEFICIT) TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2009 £'000	2008 £'000
Surplus/(deficit) on continuing operations	3,650	(2,962)
FRS 17 – Pension adjustment	(468)	(1,036)
Depreciation (note 7)	14,100	11,594
Impairment of land and buildings (note 9)	–	2,805
Surplus on disposal of tangible fixed assets (note 9)	(402)	(1,628)
Deferred capital grants released (note 19)	(5,152)	(4,268)
Endowment and investment income (note 5)	(1,721)	(4,216)
Interest payable (note 8)	4,754	4,930
Decrease in stock	57	52
(Increase) in debtors	(845)	(2,985)
Increase in creditors	7,329	10,766
Net cash inflow from operating activities	<u>21,302</u>	<u>13,052</u>

NOTES TO THE ACCOUNTS

NOTE 24 – RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2009	2008
	£'000	£'000
Income from short term investments	1,478	2,312
Other interest received	130	186
Interest paid	(4,754)	(5,811)
	(3,146)	(3,313)
Net cash outflow from returns on investments and servicing of finance	(3,146)	(3,313)

NOTE 25 – CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2009	2008
	£'000	£'000
Purchase of tangible assets	(33,969)	(25,130)
Payments to acquire long term investments	(957)	605
	(34,926)	(24,525)
Total fixed and endowment assets acquired	(34,926)	(24,525)
Receipts from the sale of tangible assets	1,223	2,443
Receipts from the sale of long term investments	1,317	345
Receipts from the sale of endowment assets	–	515
Cash withdrawn/(deposited) in restricted deposit account	–	8,688
Deferred capital grants received	13,473	13,715
Endowments received	729	12
	(18,184)	1,193
Net cash (outflow)/inflow from capital expenditure and financial investment	(18,184)	1,193

NOTE 26 – MANAGEMENT OF LIQUID RESOURCES

	2009	2008
	£'000	£'000
Cash withdrawn from (placed in) short term deposits	3,400	(12,950)
	3,400	(12,950)
Net cash inflow(outflow) from management of liquid resources	3,400	(12,950)

NOTE 27 – FINANCING

	2009	2008
	£'000	£'000
Debt due beyond one year:		
New loans repayable by 2043	10,000	82,690
	10,000	82,690
Repayment of amounts borrowed	(250)	(78,519)
	9,750	4,171
Net cash inflow from financing	9,750	4,171

NOTES TO THE ACCOUNTS

NOTE 28 – ANALYSIS OF CHANGES IN NET DEBT

	At 1 August 2008 £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2009 £'000
Cash in hand and at bank	23,196	13,122	–	36,318
Overdrafts	(1)	–	–	(1)
	<u>23,195</u>	<u>13,122</u>	<u>–</u>	<u>36,317</u>
Debt due within 1 year	(250)	48	–	(202)
Debt due after 1 year	(83,180)	(9,798)	–	(92,978)
Current asset investments	21,000	(3,400)	–	17,600
	<u>(39,235)</u>	<u>(28)</u>	<u>–</u>	<u>(39,263)</u>

NOTE 29 – PENSION SCHEMES

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

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

The latest finalised actuarial valuation for USS was at 31 March 2008 and for ERBS was 6 April 2006. The pension costs for both schemes are assessed using the projected unit method. The assumptions that have the most significant effect on the result of the valuations are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date.

(i) Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 130,000 active members and the University has over 1,400 active members participating in the scheme.

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

Because of the mutual nature of the scheme, the University is unable to 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.

NOTE 29 – PENSION SCHEMES contd

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

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

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

Standard mortality tables were used as follows:

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

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

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

At the valuation date, the value of the assets of the scheme was £28,843 million and the value of the scheme’s technical provisions was £28,135 million indicating a surplus of £707 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

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

NOTES TO THE ACCOUNTS

NOTE 29 – PENSION SCHEMES contd

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

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

On the FRS17 basis, using a AA bond discount rate of 7.1% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 46%.

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

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

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

NOTE 29 – PENSION SCHEMES contd

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

At 31 March 2009, USS had over 130,000 active members and the University had over 1,400 active members participating in the scheme.

The total pension cost for the institution was £8,606,000 (2008: £7,641,000). This includes £1,126,000 (2008: £1,027,000) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 14% of pensionable salaries.

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

The results of the latest actuarial valuation dated 5 April 2009 have yet to be finalised so the actuarial valuation dated 5 April 2006 have been continued to be used. This valuation showed that the funds held by the Scheme were insufficient to meet anticipated future commitments. The University has set a target of 20 years from this date, to eliminate this deficit and has agreed to increase employer's contributions in order to fund the projected shortfall. The assumptions and other data, which have the most significant effect on the determination of contribution levels, are as follows:

Latest actuarial valuation	6 April 2006
Investment return – past service per annum	5.6%
Investment return – future service per annum	5.6%
Pensionable salary increases per annum	4.5%
Pension increases per annum	3.0%
Price inflation per annum	3.0%
Actuarial value of assets at date of last valuation	£63.4m
Value of past service liabilities	£84.0m
Proportion of members' accrued benefits covered by the actuarial value of the assets	76%

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:

	2009	2008	2007
	%	%	%
Rate of general long-term increase in salaries	4.7	4.8	4.8
Rate of increase in pension payments	3.7	3.8	3.3
Discount rate for scheme liabilities	6.3	6.6	5.8
Inflation assumption	3.7	3.8	3.3

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

NOTES TO THE ACCOUNTS

NOTE 29 – PENSION SCHEMES contd

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 2009		31 July 2008		31 July 2007	
	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	8.5	40,475	7.9	41,744	8.0	48,578
Corporate bonds	6.0	5,548	5.9	5,245	–	–
Government bonds	4.0	12,944	4.9	15,888	5.0	15,737
Cash/Other	4.8	810	5.7	1,347	5.8	2,893
	<u>7.2</u>	<u>59,777</u>	<u>6.9</u>	<u>64,224</u>	<u>7.2</u>	<u>67,208</u>
Present value of scheme liabilities		(80,032)		(69,532)		(70,198)
Pension liability		<u>(20,255)</u>		<u>(5,308)</u>		<u>(2,990)</u>

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 2009.

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account

	2009 £'000	2008 £'000
Current service cost	2,271	2,366
Past service cost	–	–
Total operating charge	<u>2,271</u>	<u>2,366</u>

Analysis of the amount charged to the income and expenditure account

	2009 £'000	2008 £'000
Within pension costs (note 6) – monthly contributions	2,860	2,630
Within pension costs (note 6) – FRS 17	(589)	(264)
Total operating charge	<u>2,271</u>	<u>2,366</u>

NOTES TO THE ACCOUNTS

NOTE 29 – PENSION SCHEMES contd

Analysis of amount charged/credited to other finance expenditure/income

	2009	2008
	£'000	£'000
Expected return on pension scheme assets	4,455	4,819
Interest on pension scheme liabilities	(4,576)	(4,047)
Net (charge)/credit in accounts	<u>(121)</u>	<u>772</u>

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

	2009	2008
	£'000	£'000
Total actuarial losses	(15,415)	(3,354)
Total loss recognised in the STRGL	<u>(15,415)</u>	<u>(3,354)</u>
Cumulative amount of losses recognised in the STRGL	<u>(34,533)</u>	<u>(19,118)</u>

Movement in the scheme deficit during the year

	2009	2008
	£'000	£'000
Deficit on scheme at 1 August	(5,308)	(2,990)
Movements in the year:		
Current service cost	(2,271)	(2,366)
Contributions paid	2,860	2,630
Past services costs	–	–
Other finance (expenditure)/income	(121)	772
Actuarial losses	(15,415)	(3,354)
Deficit on scheme at 31 July	<u>(20,255)</u>	<u>(5,308)</u>

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

	2009	2008
	£'000	£'000
Opening defined benefit obligation	69,532	70,198
Current service cost	2,271	2,366
Interest cost	4,576	4,047
Contributions by scheme participants	899	827
Actuarial losses/(gains) on scheme liabilities*	6,725	(3,858)
Net benefits paid out	(3,971)	(4,048)
Closing defined benefit obligation	<u>80,032</u>	<u>69,532</u>

* Includes changes to the actuarial assumptions

NOTES TO THE ACCOUNTS

NOTE 29 – PENSION SCHEMES contd

Changes to the fair value of scheme assets during the year

	2009 £'000	2008 £'000
Opening fair value of scheme assets	64,224	67,208
Expected return on scheme assets	4,455	4,819
Actuarial losses on scheme assets	(8,690)	(7,212)
Contributions by the employer	2,860	2,630
Contributions by scheme participants	899	827
Net benefits paid out	(3,971)	(4,048)
Closing fair value of scheme assets	<u>59,777</u>	<u>64,224</u>

Actual return on scheme assets

	2009 £'000	2008 £'000
Expected return on scheme assets	4,455	4,819
Actuarial losses on scheme assets	(8,690)	(7,212)
Actual return on scheme assets	<u>(4,235)</u>	<u>(2,393)</u>

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

	2009 £'000	2008 £'000	2007 £'000
Fair value of scheme assets	59,777	64,224	67,208
Defined benefit obligation	(80,032)	(69,532)	(70,198)
Deficit in the scheme	<u>(20,255)</u>	<u>(5,308)</u>	<u>(2,990)</u>

History of experience gains and losses:

	2009	2008	2007* Restated	2006* Restated	2005
Experience gains/(losses) on scheme assets:					
– Amount (£'000)	(8,690)	(7,212)	3,003	1,978	6,549
– % of scheme assets	(14.5)	(11.2%)	4.5%	3.3%	11.8%
Experience gains/(losses) on scheme liabilities:					
– Amount (£'000)	(3,234)	(997)	3,039	(2,347)	(789)
– % of the present value of scheme liabilities	(4.0%)	(1.4%)	4.3%	(3.1%)	(1.0%)
Total amount recognised in the statement of total recognised gains and losses:					
– Amount (£'000)	(15,415)	(3,354)	12,120	(3,960)	(100)
– % of the present value of scheme liabilities	(19.3%)	(4.8%)	17.3%	(5.2%)	(0.1%)

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

NOTES TO THE ACCOUNTS

NOTE 29 – PENSION SCHEMES contd

(iii) Total Pension Cost

The total pension cost for the University was:

	2009	2008
	£'000	£'000
Contributions to USS – regular cost	8,606	7,641
Contributions to ERBS – current and past service cost	2,202	2,276
Contributions to other pension schemes	197	177
	<hr/>	<hr/>
	11,005	10,094
Supplementary pension costs	12	12
Early retirement pension enhancement costs	624	332
	<hr/>	<hr/>
Total pension cost	11,641	10,438
	<hr/>	<hr/>

NOTE 30 – CAPITAL COMMITMENTS – Group and University

	2009	2008
	£'000	£'000
Commitments contracted at 31 July	8,396	7,456
Authorised but not contracted at 31 July	88,051	57,692
	<hr/>	<hr/>
	96,447	65,148
	<hr/>	<hr/>

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.

NOTE 31 – RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the University Council (with members being drawn from local, public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures, which require individuals to declare any interest.

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

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

NOTES TO THE ACCOUNTS

NOTE 31 – RELATED PARTY TRANSACTIONS contd

Tremough Campus Services

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

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

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

Tremough Development Vehicle Limited (TDV) is a wholly owned subsidiary of TCS. It has been established to provide the construction of the main campus for the Combined Universities in Cornwall project based at Tremough. TDV will continue to undertake academic related building works on behalf of the University and UCF. The University and UCF receive capital grants that are released to TDV to fund the academic development at the Tremough campus. TDV is also receiving grants to construct non-academic facilities related to the Phase 3 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 Phase 2 of the hub development for the Combined Universities in Cornwall initiative. TDV will contract the works with third parties and will recover funds from the University and UCF on the basis of an agreed split of costs and usage of space. This split has been set at 52.44% (Phase 1) and 45.48% (Phase 2) for the University and 47.56% (Phase 1) and 54.52% (Phase 2) for UCF. The TCS Group has capital commitments as follows: -

	2009 £'000	2008 £'000
Commitments contracted at 31 July	13,775	19,719
Authorised but not contracted at 31 July	5,141	20,900
	<u>18,916</u>	<u>40,619</u>

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

Transactions between the University and TCS were as follows:

	2009 £'000	2008 £'000
Income derived from the TCS Group	190	64
Expenditure incurred with the TCS Group	2,263	1,742
Payments by the TCS Group on behalf of the University	1,509	2,194

NOTES TO THE ACCOUNTS

NOTE 31 – RELATED PARTY TRANSACTIONS contd

'Payments by TCS on behalf of the University' represents amounts paid to contractors for the University's share of the design and construction of Phases 2 and 3 at the Tremough campus.

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

	2009	2008
	£'000	£'000
Amount owing from University of Exeter to the TCS Group	960	405
Amount due to University of Exeter from the TCS Group	1,452	1,181

INTO University of Exeter LLP / Exeter ISC Limited

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

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

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

During the year the University recharged £2,263,000 (2008: £2,048,000) of operating costs to INTO University of Exeter LLP. This was in the normal course of business. At the year end INTO University of Exeter LLP owed the University £375,000 (2008: £490,000).

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

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

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

	2009	2008
	£	£
Amount owing from Exeter ISC to the University of Exeter	1	166
Amount due to Exeter ISC from INTO University of Exeter LLP	–	166

University of Exeter Students' Guild

In accordance with FRS 2, the activities of the University of Exeter Student's Guild have not been consolidated on the grounds that the University does not operate dominant influence over its activities. During the year ended 31 July 2009 the surplus on the Guild's activities was £250,000 (2008: £135,000 deficit) and its capital and reserves totalled £261,000 at this date (2008: £111,000).

NOTES TO THE ACCOUNTS

NOTE 31 – RELATED PARTY TRANSACTIONS contd

Thomas Hall Estates Limited

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

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

At the balance sheet date planning permission had not yet been granted and, as stated in the agreement, if the project was aborted each party would be liable to 50% of the direct costs incurred to date by the company. As such the University has continued to accrue costs of £244,000 (2008: £223,000).

NOTE 32 – POST BALANCE SHEET EVENTS

After the year end, the University completed two major transactions with its partners, University Partnerships Programme (UPP) and INTO University Partnerships Limited.

University Partnerships Programme (UPP)

On 23 September 2009 the University, with UPP, Barclays and Royal Bank of Scotland concluded phase 1 of a £133m transaction; phase 2 concluded on 11 November 2009. This transaction involved the transfer of 980 University bed spaces to UPP and the obligation of UPP to construct a further 1,948 bed spaces over the next three years. The student demand risk for this transfer is being taken by UPP. Following the close of the transaction the University received a premium of £13.8m. UPP has a 43 year lease concession from the University for the residences and development sites.

INTO University Partnerships Limited (INTO)

The University previously entered into an agreement with INTO University Partnerships Limited in December 2006 which included the lease of land for future development. On 22 October 2009 the University entered into a revised agreement by which INTO, through a property development company, will construct residences and a teaching block to support the operational side of INTO University of Exeter LLP in recruiting and teaching international students. The properties will be leased to INTO University of Exeter LLP by INTO University Partnerships Limited. Following the close of the transaction the University received a premium of £2.7m including interest. INTO has a 35 year lease concession from the University for the residences and teaching sites.

NOTE 33 – CONTINGENT LIABILITY

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 year. This audit identified some areas where it is asserted that the procurement processes which utilised these funds were not fully compliant with the European Union Procurement Regulations. The University of Exeter and University College Falmouth are in discussion with the relevant authorities in respect of this matter and a robust rebuttal has been made. Nevertheless, the discussions may result in a repayment of some of the funds received. It is not possible at this time to estimate the amount of such a repayment.

NOTES TO THE ACCOUNTS

NOTE 34 – ACCESS FUNDS

Summary of transactions for the year ended 31 July 2009

	2009	2008
	£'000	£'000
Balance at 1 August	22	35
Funding Council grants	253	343
Interest earned	5	9
	280	387
Disbursed to students	(247)	(356)
Administration costs	(5)	(9)
Balance at 31 July	28	22

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 35 – TDA INITIAL TEACHER TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2009

	2009	2008
	£'000	£'000
Balance at 1 August	160	77
TDA grants received	3,596	4,102
Total TDA training bursary funding available for the year	3,756	4,179
Disbursements to students	(3,629)	(4,019)
Balance at 31 July	127	160

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

NOTE 36 – TDA BLACK AND MINORITY ETHNIC (BME) RECRUITMENT AND RETENTION

Summary of transactions for the year ended 31 July 2009

	2009	2008
	£'000	£'000
Balance at 1 August	–	–
BME funds received	10	3
Total BME funding available for the year	10	3
BME recruitment and retention expenditure	(10)	(3)
Balance at 31 July	–	–

NOTES TO THE ACCOUNTS

NOTE 37 – TDA STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2009

	2009	2008
	£'000	£'000
Balance at 1 August	720	665
Funds received	410	449
Disbursements to students	(378)	(394)
Balance at 31 July	<u>752</u>	<u>720</u>

NOTE 38 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY

INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2009

INCOME	Note	University of Exeter 2009 £'000	University of Plymouth 2009 £'000	Total 2009 £'000	Total 2008 £'000
Funding Council grants	iii	9,334	9,334	18,668	11,847
Tuition fees and education contracts		1,952	1,952	3,904	2,987
NHS funding	iv	3,712	3,713	7,425	6,560
Research grants and contracts		5,544	1,856	7,400	6,326
Other income	v	1,720	1,844	3,564	2,237
Endowment and investment income		314	314	628	849
Total income		<u>22,576</u>	<u>19,013</u>	<u>41,589</u>	<u>30,806</u>
EXPENDITURE					
Staff costs	vi	9,930	7,688	17,618	16,545
Other operating expenses		7,629	6,344	13,973	11,488
Depreciation	viii	127	92	219	246
Total expenditure		<u>17,686</u>	<u>14,124</u>	<u>31,810</u>	<u>28,279</u>
Total operating surplus		4,890	4,889	9,779	2,527
<u>Exceptional items: continuing operations</u>					
Loss on investment	vii	(100)	(100)	(200)	–
Surplus on continuing operations		<u>4,790</u>	<u>4,789</u>	<u>9,579</u>	<u>2,527</u>

NOTES TO THE ACCOUNTS

NOTE 38 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

BALANCE SHEET of the HE Community Chest as at 31 July 2009

	Note	2009 £'000	2008 £'000
Fixed assets			
Tangible assets	viii	2,370	1,447
Current assets			
Debtors	ix	4,919	5,281
Cash at bank and in hand	x	28,439	19,449
		33,358	24,730
Creditors: amounts falling due within one year	xi	(17,689)	(18,640)
Net current assets		15,669	6,090
Total assets less current liabilities		18,039	7,537
NET ASSETS		18,039	7,537
Deferred capital grants		2,370	1,447
Reserves	xii	15,669	6,090
TOTAL		18,039	7,537

Explanatory notes

i. *Background*

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

The Joint Board of Management (from July 2009 renamed the Joint Strategy Board) is a committee of the Council of the University of Exeter and the Board of Governors of the University of Plymouth and is responsible to the Universities in respect of the overall management of PCMD within the policies and parameters set by the Universities' governing bodies. In making recommendations the Joint Board of Management 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 2009.

NOTES TO THE ACCOUNTS

NOTE 38 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

iii. Funding Council grants

	2009	2008
	£'000	£'000
Recurrent grant	17,405	11,394
Other specific grants	1,171	284
Deferred capital grants released in the year: Equipment	92	169
	<u>18,668</u>	<u>11,847</u>

iv. NHS funding

2009	2008
£'000	£'000
7,425	6,560
<u>7,425</u>	<u>6,560</u>

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

v. Other income

	2009	2008
	£'000	£'000
Other grant income	2,768	659
Other income	796	1,578
	<u>3,564</u>	<u>2,237</u>

vi. Staff numbers

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

	Year Ended	Year Ended
	31 July 2009	31 July 2008
		Restated
	Number	Number
Academic staff	86	82
Research staff	94	82
Teaching fellows (formerly tutors)	6	13
Support staff	191	181
Total	<u>377</u>	<u>358</u>

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

NOTE 38 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

vii. *Exceptional item: Loss on investment*

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

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

The most current professional advice indicates that amounts ranging between 75% and 93% of such deposits will be recoverable. The Universities of Exeter and Plymouth have assumed 80% of the sum will be recovered in-line with CIPFA guidance. Included in these financial statements, within exceptional items, is the write off of the remaining 20% of the deposit totalling £200,000.

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

viii. *Fixed assets*

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

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

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

ix. *Debtors*

	2009	2008
	£'000	£'000
Debtors	1,961	1,113
Prepayments and accrued income	2,021	1,746
Due from partner university	937	545
Due from NHS partners	–	1,877
	<u>4,919</u>	<u>5,281</u>

NOTES TO THE ACCOUNTS

NOTE 38 – PENINSULA COLLEGE OF MEDICINE AND DENTISTRY contd

x. *Cash at bank and in hand*

	2009	2008
	£'000	£'000
Held by:		
University of Exeter	19,363	16,156
University of Plymouth	8,522	3,025
University of Plymouth – PCMD	554	268
	<u>28,439</u>	<u>19,449</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 short-term deposits.

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

	2009	2008
	£'000	£'000
Trade creditors	113	112
Other creditors	88	57
Due to partner universities	580	319
Deferred income:		
HEFCE Recurrent Teaching Grant	–	3,659
HEFCE Capital funding	1,977	435
HEFCE Dental start-up funding	1,767	1,767
NHS Capital funding	2,341	1,360
NHS Dental start-up funding	2,896	1,909
NHS SIFT	–	3,657
Accruals and other deferred income	7,927	5,365
	<u>17,689</u>	<u>18,640</u>

xii. *Reserves*

	2009	2008
	£'000	£'000
Opening balance	6,090	3,563
Surplus for the year	9,579	2,527
Closing balance	<u>15,669</u>	<u>6,090</u>

FIVE YEAR SUMMARY ACCOUNTS

FIVE YEAR SUMMARY ACCOUNTS

	2008/09	2007/08	2006/07 Restated	2005/06	2004/05
	£'000	£'000	£'000	£'000	£'000
INCOME AND EXPENDITURE					
Income					
Funding body grants	67,670	63,544	57,898	52,673	48,848
Tuition fees & education contracts	60,037	45,507	35,179	29,712	27,795
Research grants & contracts	33,313	24,497	20,100	16,494	15,293
Other income	40,469	40,205	36,142	36,824	35,987
Endowment & investment income	1,721	4,216	3,336	1,899	1,044
Other financial income	–	772	170	–	–
Total income	203,210	178,741	152,825	137,602	128,967
Expenditure					
Staff costs	112,190	100,480	90,082	79,066	77,711
Other operating expenses	68,970	58,460	50,423	45,034	43,153
Depreciation	14,100	11,594	10,054	7,535	6,904
Interest payable	4,754	4,930	4,944	4,399	3,333
Other financial expenditure	121	–	–	100	400
Total expenditure	200,135	175,464	155,503	136,134	131,501
Operating surplus/(deficit)	3,075	3,277	(2,678)	1,468	(2,534)
Share of operating profit/(loss) in JV	228	(866)	(817)	(318)	(150)
Exceptional items	(36)	(5,579)	3,188	(2,351)	(9,994)
Transfer (to) / from endowments	383	206	37	–	–
(Deficit)/Surplus for the year	3,650	(2,962)	(270)	(1,201)	(12,678)
Historical cost adjustments	5,054	4,999	6,373	4,913	6,125
Historical cost surplus/(deficit) for the year	8,704	2,037	6,103	3,712	(6,553)

FIVE YEAR SUMMARY ACCOUNTS

BALANCE SHEET

	2008/09	2007/08	2006/07	2005/06	2004/05
	£'000	£'000	Restated £'000	£'000	£'000
Fixed assets	450,045	449,370	457,408	432,267	235,748
Endowment asset investments	18,102	15,974	18,534	16,645	13,551
Net current assets	22,480	20,791	20,940	15,939	6,665
Creditors: amounts falling due after more than one year	(92,978)	(83,180)	(77,871)	(76,796)	(62,626)
	<u>397,649</u>	<u>402,955</u>	<u>419,011</u>	<u>388,055</u>	<u>193,338</u>
Provisions for liabilities	(846)	(893)	(1,899)	–	–
Pension liability	(20,255)	(5,308)	(2,990)	(15,640)	(13,100)
Total net assets	<u>376,548</u>	<u>396,754</u>	<u>414,122</u>	<u>372,415</u>	<u>180,238</u>
Represented by:					
Deferred capital grants	101,287	93,213	85,558	64,319	57,826
Endowment reserve	18,102	15,974	18,534	16,645	13,551
Revaluation reserve	229,763	250,217	271,376	275,389	93,271
Income and expenditure reserve	27,396	37,350	38,654	16,062	15,590
Total funds	<u>376,548</u>	<u>396,754</u>	<u>414,122</u>	<u>372,415</u>	<u>180,238</u>

FINANCIAL STATISTICS

	2008/09	2007/08	2006/07 Restated	2005/06	2004/05
	%	%	%	%	%
Sources of income (% of income)					
Funding body grants	33.3	35.6	37.9	38.3	37.9
Tuition fees – Home and EU	19.4	17.3	15.2	12.3	12.2
Tuition fees – Overseas and other	10.1	8.2	7.8	9.3	9.3
Research grants & contracts	16.4	13.7	13.2	12.0	11.9
Residences, catering and conferences	10.7	11.9	13.6	15.2	15.8
Other income	9.2	10.6	10.0	11.5	12.1
Endowment & investment income	0.9	2.4	2.2	1.4	0.8
Other financial income	–	0.3	0.1	–	–
Total income	100.0	100.0	100.0	100.0	100.0
Analysis of expenditure (% of expenditure)					
Staff costs	56.1	57.3	57.9	58.1	59.1
Other operating expenses	34.4	33.3	32.4	33.1	32.8
Depreciation	7.0	6.6	6.5	5.5	5.3
Interest payable	2.4	2.8	3.2	3.2	2.5
Other financial expenditure	0.1	–	–	0.1	0.3
Total expenditure	100.0	100.0	100.0	100.0	100.0
Operating surplus/(deficit) as a % of total income	1.5	1.8	(1.8)	1.1	(2.0)
Indicators of financial strength					
Days ratio of available funds* to total expenditure**	50.3	45.8	60.3	42.9	30.7
<i>The number of days expenditure that could be sustained from available funds</i>					
% Ratio of long term liabilities* to total net assets	24.7	21.0	18.8	20.6	34.7
<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	0.99	0.95	0.75	0.64	0.61
<i>Extent to which current liabilities could be met from cash and liquid investments</i>					
Days ratio of liquid assets to total expenditure**	105.9	98.4	73.5	64.6	52.0
<i>Days that total expenditure could be met from cash and liquid investments</i>					
% ratio of current assets to current liabilities	1.41	1.45	1.54	1.45	1.23
<i>Extent to which current liabilities could be met from current assets</i>					
Days of total income*** represented by debtors	39.8	45.9	51.1	47.3	38.5
<i>Days of total income (excluding Funding body grants) represented by debtors</i>					
* Excluding FRS17 pension liability/reserve					
** Excluding depreciation and FRS17 expenditure					
*** Excluding FRS17 income					

NOTES



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