University of Essex

financial statements 2007-2008

Values

As a University we value the following: the highest academic and professional standards, social, cultural and economic obligation, environmental sustainability, diversity, equality of opportunity, integrity and leadership. We value sound financial management as a means of securing our academic activity and taking control of our own destiny. At Essex, research, teaching and knowledge transfer enjoy parity of esteem.

Purpose and mission

The purpose of the University is to extend and deepen the fund of human knowledge and pass the benefits on to others.

Our mission is to be a globally competitive, research-intensive, student-focussed university that takes seriously its economic, social and cultural responsibilities to the Eastern region, the UK and the world.

Professor Colin Riordan
Vice-Chancellor

Strategic vision

In five years' time Essex will be acknowledged as a powerful regional university with global impact and an international reputation that is unparalleled for a university of our size. The University will achieve its growth through partnership (regional and international) and developing its multi-campus footprint. We will be advantageously placed in the world top 200 universities as defined by the Times Higher Education listings.

The broad direction of travel is to build an international strategic alliance consisting of multilateral relations with a small number of selected universities from around the world.

We are looking for:

- a means of helping to fulfil our economic, social and cultural obligations (addressing global challenges and questions of social justice, with a particular focus on Africa)
- international research collaboration
- sharing best practice in teaching and learning
- shared marketing and profiling opportunities
- global influence and an academic focus on global challenges.

The international alliance will be underpinned by a strong regional base that will:

- fulfil our academic aspirations in research and teaching
- fulfil our economic, social and cultural responsibilities to the Eastern region
- meet government aspirations on widening participation and employer engagement
- help to secure our position in recruitment terms.

Contents

Chair's Report

My first year as Chair of Council also coincided with the arrival of a new Vice-Chancellor, Professor Colin Riordan. Unsurprisingly the year has been one of planning and implementing change, laying the foundations to secure the University's future.

It is pleasing to report that during this change process the University's finances have been maintained in sound order with a surplus on continuing operations of £2.0m compared to the deficit of £0.9m the previous year. Further details of this are provided in the Financial Review that follows.

I will single out one aspect of the change process. While the University will not be changing its direction, our vision has been sharpened up, injecting a new clarity of purpose. New structures have also been created to manage academic activity, underpinned by a new financial strategy to ensure that those responsible for delivery of their component of the plan are accountable for their performance.

From 1 August 2008 all University business now falls under the remit of one of five senior managers: four Pro-Vice-Chancellors leading four academic faculties and the Registrar and Secretary leading professional services. These senior managers have been charged with delivering financial plans and targets, which in turn will enable the University to plan for development and investment. At the hub of these new management structures lies accountability for delivering improved business performance throughout the University. Like all such change, it will not be achieved by imposing new structures or organisational units, nor will it be achieved overnight. It will be achieved by staff at every level understanding and engaging with the process. The University is at the start of a journey but considerable progress has already been made. I anticipate that these new accountability structures and processes will continually evolve; they will prove to be the foundation upon which the University is able to plan for the medium to long-term with confidence.

The University's new financial strategy features investment in new facilities and in new academic activities, all with the purpose of securing the University's long-term future. The Financial Review sets out further details of the new financial strategy, I will highlight only one aspect.

In July 2008 a new £250m capital investment plan was approved by Council. This focuses on improving the student experience, encompassing improved teaching and sporting facilities, on improving the quality and quantity of academic space which is now occupied to full capacity, and on addressing environmental and physical sustainability issues of the fabric of existing campuses. An important component of this investment will be to develop new research facilities that are commensurate with the University's status as a leading centre for research but also to develop new research activity so the University can play its part in helping address some of the global challenges facing our society. I am pleased to report that the University has recently secured a new bank loan facility that will provide £100m of new funds to help the University achieve these ambitions. However, Council of the University and its senior management recognise that the delivery of the capital plan is fully dependant upon the University improving its recurrent financial performance and consistently delivering a level of surplus that will not only generate funds for investment but also provide an all important margin of comfort in this increasingly uncertain and volatile world.

Bill Gore
Chair of Council

Financial Review

Highlights

(2006/07 comparative figures shown in brackets)

- Total income up 8.5% to £109.2m (£100.7m)
- Surplus on continuing operations of £2.0m (deficit of £0.9m)
- EBITDA[1] amounted to £5.7m (£4.3m).
- Capital expenditure of £11.9m (£15.8m)
- Capital grants and receipts of £6.0m (£16.3m)
- Net assets of £110.8m (£93.6m)

Operationally, the year was marked by two significant events. In October 2007 Professor Colin Riordan joined the University as its new Vice-Chancellor and as a result a series of changes relating to the University's vision, strategy and organisation have been developed over the last year for implementation from the 2008/09 financial year.

The second major event of the year relates to University Campus Suffolk Ltd, a joint venture with the University of East Anglia, which opened its doors to students for the first time in September 2007.

Funding and Regulation

The University is an autonomous self-governing exempt charity, established by Royal Charter in 1965 and is regulated by the Higher Education Funding Council for England (HEFCE). Established in Colchester, the University also operates smaller campuses in Loughton and Southend.

These financial statements are those of the University of Essex group, comprising the University, its various subsidiary undertakings and joint ventures. These are explained in note 26 of this document.

The market place in which the University operates represents a complex mix of regulated and un-regulated markets. For instance, while both the volume of activity and the level of tuition fees the University can charge are regulated in the EU undergraduate market place, the University has no such constraints in student market places outside the EU where the University has greater exposure to market forces.

Funding from HEFCE is governed by a Financial Memorandum which sets out the terms and conditions which the University must satisfy in order to receive public funding. The most important source of such funding is the block grant, amounting to £29.4m covering both teaching and research. The University has considerable freedom in deploying this grant between teaching and research, between academic disciplines and support services.

As well as being an independent conduit for public funding between central government and individual universities, HEFCE also regulates and monitors the financial health of higher education institutions in England. This is achieved by requirements to submit various data returns, to undertake various internal and external audits and to have specified corporate governance structures such as an independent audit committee.

The Financial Statements are produced in accordance with the Statement of Recommended Practice for Further and Higher Education (SORP) which itself is based on UKGAAP. A revised SORP was issued for 2007. Its most material impact has been a reclassification of £10m of former endowment funds and assets which have been reclassified as general funds and fixed asset investments, effectively de-restricting the deployment of these resources. This change has been treated as a prior year adjustment in the financial statements.

Vision, Strategy and Finance

During the last year the University has been reviewing its vision and strategy. While the substance is not changing in a fundamental way, our vision and strategy are being more tightly focused, more concisely expressed and above all embedded in the way the University operates. The University's values, mission and strategic vision are printed on the inside cover of this document.

Supporting the strategic mission is a new financial strategy, one that enables our investment priorities to be met, in particular enhancing the student experience, improving the quality and reach of our research as well as enhancing the fabric of the campus and addressing maintenance needs.

The new financial strategy, covering the 5-year period 2008/09 to 2012/13 sets out a small number of finance KPIs:

- A 5% surplus on continuing operations, of which 3% is for strategic investment, 1% for sustainability investment and 1% contingency;
- Growth of student numbers by 1,100 full-time equivalent, which equates to an annualised growth rate of 2.7% of the student body;
- Staff costs as a proportion of total income to be 58%, in line with the average of campus-based institutions, founded in the 1960s, and members of the 1994 Group – a club of institutions with similar missions;
- Growth of income of 5% on the average of the previous three years;
- Income from philanthropic sources of £5m over the planning period.

Underpinning the delivery of this new financial strategy is a new set of accountability structures that require budget managers to achieve their financial performance targets. This is key as it then enables the University to plan, confident in the knowledge that it has the means to deliver the plan. From 1 August 2008 the management of University business has been reorganised into 5 major business units, comprising 4 academic Faculties and the Professional Services.

In July 2008, Council approved a £250m capital investment plan which provides a road map of investment to be delivered over the next 5 to 7 years. Much of this will be financed by third party investors, from capital grants and from internal cash generation. To complete its financing the University has recently entered into a new £100m term loan facility with LloydsTSB plc.

[1] EBITDA is earnings before interest, depreciation and taxation and is a measure of the cash operating surplus

Financial Review

Financial Performance

The University's financial performance improved over the last year with a surplus on continuing operations, before joint ventures and exceptional items, of £1.974m compared to a deficit of £861k in 2006/07.

EBITDA increased to £5.7m compared to £4.3m in 2006/07. Out of this the University has to cover debt servicing costs, capital expenditure not funded from external grants or asset disposals as well as changes to working capital requirements. In total these requirements exceeded EBITDA and as a consequence cash balances reduced by £3.4m to stand at £11.0m, representing 39 days average expenditure. While providing a high margin of comfort, the capital needs of the University are outstripping its ability to fund these from recurrent cash generation, a problem that has been recognised and is one of the drivers behind the new financial strategy adopted by the University which is further discussed below.

Turnover for the year grew by 8.5% to stand at £109.2m, the increase driven by:

- 0.4% fall in Funding Council income
- 16.6% rise in tuition fee and educational contract income
- 9.7% rise in research grant and contract income
- 9.0% rise in income from residences, catering and conferences
- 10.4% rise in other operating and interest income

The reduction in Funding Council income largely reflects a fall in funding for special initiatives which is also matched by a reduction in expenditure. However, block grant for teaching rose by only 1.2% over the year, well below the rate of pay inflation, reflecting disappointing student recruitment from the EU, including home students, in the year.

The large rise in tuition fee and educational contract income reflects three independent factors. EU tuition fee income rose by 30% as the second undergraduate cohort paying the new higher £3,145 tuition fee was admitted to the University. The third and final cohort paying this fee level has been admitted in the 2008/09 financial year. The return from the University's new international student strategy has started to flow through with an 8% increase in income from non-EU students and this has been further improved upon in the 2008/09 financial year. Finally, income from National Heath Service contracts continues to rise albeit from a modest base, nearly doubling to £2.4m. This source of income is also set to increase in 2008/09 as students are recruited to new programmes.

Research grant and contract income rose by 9.7% over the year, driven by a 15% rise in UK Research Council funded projects. As well as increased volume of activity, margins also improved with the level of indirect-cost recovery increasing from 20.9% to 22.0% as the benefits of full economic costing approach to pricing research projects continue to flow through.

Income from residences, catering and conferences grew by 9% over the year to stand at £15.3m and again, not only has the volume of business activity increased, so has its profitability, with net profit (i.e. income less all direct and indirect costs) increasing from 13.8% to 14.6%. Student accommodation is operated at full capacity and without additional capacity the ability to grow student numbers will be constrained.

Staff costs, excluding FRS17 adjustments, grew by 7.4% and represent 61.7% of total income, a slight decrease on the 62.3% in the previous year. The University's new financial strategy has set a target of reducing staff costs to 58% by the start of 2010/11, a level that is in line with a benchmark of peer group institutions – members of the 1994 Group who are campus based and were founded in the 1960s. This is a challenging target although good progress is being made, the benefit of which will flow through in future years. The management of staff costs has been made all the more difficult as a result of the nationally agreed October 2008 pay award which, at 5%, is far beyond the rate of inflation on regulated income.

University Campus Suffolk Ltd (UCS), a joint venture with the University of East Anglia, commenced trading at the start of 2007/08. The total income of UCS Ltd was £24m and its operating surplus £1.1m. However, after exceptional start-up pension costs incurred in relation to staff transfers, its total deficit for the year was £0.6m. UCS is accounted for as a joint venture. None of its income is included in the University's group turnover, while 50% of the UCS total deficit is reflected in the group Income and Expenditure Account.

Capital Investment

Capital expenditure amounted to £11.9m (£15.8m in 2006/07) while external capital funding amounted to £6.0m (£16.3m in 2006/07). Projects include a new Heath and Human Sciences building (£2.0m), a building extension for Psychology (£1.8m), acquisition of the Clifftown Studios in Southend (£1.0m) to house activities of the East15 Acting School, fit out of the Gateway building, Southend (£0.8m) and the acquisition of research equipment (£1.8m).

The University also implemented a new financial system (£0.8m), which is enabling a step-increase in the sophistication of internal financial reporting. Phase 1 of the project was implemented successfully on 1 August 2008 without any business interruption or significant issues arising. Phase 2 of the project, which will see enhanced user functionality, will be rolled out from March 2009 onwards.

The difference between capital expenditure and external funding, amounting to £5.9m, has to be met from the University's own resources. This represents an unprecedented and unsustainable level of internal funding for capital projects. The need to accelerate the pace of investment is clear from the newly approved capital investment plan, which sets out a road map of future investment totalling £250m, largely targeted at student facilities, teaching and research capacity and addressing issues of sustainability of the campus.

The new financial strategy aimed at uplifting the level of recurrent surplus is a pre-requisite to being able to afford this level of investment. Substantial external funding will also be required and to this end the University has entered into a facility with Lloyds TSB plc to provide a new loan of £100m, to be drawn down over the next 5 years. Alongside this a new and more sophisticated decision-making process to appraise and approve capital projects is being put into place. While a £100m of new debt represents something of a risk, this will be managed by an ability to slow down the rate of investment over the next 5 years, delaying, deferring or cancelling projects should circumstances warrant it.

Investments, Liquidity and Debt

Prior to 2007/08, equity and fixed interest investments backed the University's endowment funds. Following the introduction of the new SORP and the consequential

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reclassification of the majority of former endowment funds as general funds, the University now finds itself in the position of holding part of its general reserve in UK equities. The most immediate consequence of this is that the investment income generated by these equities is producing an income stream that the University can deploy to support general expenditure.

While UK equities have suffered a further material decline in market value since the balance sheet date there is no requirement, and no plan, to crystallise these paper losses. The decline in the stock market will have no tangible impact on the University in terms of its holdings of investments. The potential fall in dividend income as a result of the predicted economic recession will have a more tangible impact, although not a material one.

While operating cash flow has improved over the year this has been consumed in financing significant capital expenditure over and above that funded by external grants. As a result cash balances decreased by £3.4m over the year to stand at £11.0m as at 31 July 2008. This is a comfortable level of cash supporting 39 days of average expenditure.

Cash is managed conservatively with deposits in UK high street banks and AAA rated money market funds. The University has no exposure to Icelandic banks or any other overseas banks.

Total debt outstanding at 31 July 2008 was £38.6m. The University's interest rate management policy is to secure 70% of its interest-costs on a fixed basis. At 31 July, 71% of interest payments were fixed by means of a number of interest rate swap contracts. This policy provides a high degree of cost certainty yet it will also enable the University to benefit from projected reduction in interest rates.

As discussed earlier a new loan facility with Lloyds TSB plc has recently been agreed. This will provide new funds of £100m available over the next 5 years and will also involve rescheduling existing Lloyds TSB debt of £22m. The new £122m loan facility will be payable on an interest only basis for the first 5 years, to be fully repaid over the next 30 years.

Pension Schemes

The results of actuarial revaluations for both of the University's support staff pension schemes were published during the year. The University has agreed funding plans to cover increases in future service cost and past service deficits.

On an FRS17 valuation basis, the deficits in both schemes have increased significantly, from a combined £12.4m to £21.6m. It is likely these deficits will have deteriorated further after the balance sheet date, given the falls in stock market values. However, FRS17 provides a snap shot market valuation compared to the longer-term assessment of financial health undertaken by the schemes' actuary. It is the scheme actuary's more considered valuation on which the University's level of financial support is based.

Provisional results of the actuarial revaluation for the University's largest pension scheme, the Universities Superannuation Scheme (USS), have recently been released. These point to a likely rise in the employers' on-cost rate of between 2 and 4 percentage points, adding between £0.8m and £1.6m to recurrent costs. How these costs will be phased, funded and possibly shared with employees is subject to discussion at a national level.

Future Outlook, Risks and Opportunities

Student recruitment in the current 2008/09 financial year has proven to be exceptionally strong. EU recruitment, including home students, has resulted in a record intake of over 2,000 full-time students having commenced their studies. Recruitment of international students also remains strong and exceeded targets. The University also recruited to its first undergraduate nursing programmes in Southend, having so far recruited only at postgraduate level. The outlook for student recruitment looks positive and much of planned future investment is aimed at strengthening this yet further, enhancing the University's competitive position.

The new financial year 2008/09 sees the final undergraduate cohort entering the University paying the new higher EU tuition fee, providing the final injection of new funds from this source. From 2009/10 onwards increases in EU tuition fee income will be driven by volume growth and inflation.

The 2008/09 year also sees the end of the National Framework Agreement which has governed pay increases in the sector over the last 2 years. This has culminated in a pay increase linked to the retail prices index of 5%, payable in October 2008, a level that far exceeds the inflation that has been added on to regulated funding of less than 3% and that is above the 4% in the budget. At the same time the University is expecting significant increases in the cost of supporting its largest staff pension scheme, although these are unlikely to apply until September 2009 onwards. Future pay costs represent our biggest challenge. This is more of a problem at Essex as the University devotes a larger proportion of its income to funding staff costs than its close peers. While inflation is predicted to fall significantly over the year it does not automatically follow that pay expectations will follow in the same direction or by the same magnitude. A cost reduction exercise has been implemented with the target of delivering £5m savings by the start of 2010/11. Progress is so far good but it is too early to judge its success. This is perhaps the key risk the University faces, the ability to contain staff costs, achieve a target staff cost ratio of 58%, in a sector that is pushing staffing and pension costs upwards.

The University is beginning to suffer from a new type of issue, one where physical capacity is starting to constrain the ability to cope with even modest student number growth. This applies to teaching accommodation and student residences and is being felt on all 3 campuses: Colchester, Loughton and Southend. This underlines the importance of the capital investment plan for the University's future.

The global financial system has been experiencing an unprecedented level of turbulence which has left the University sector in the UK largely unscathed. We do not expect the 'credit crunch' to have a material impact. However, it now appears that the global 'real' economy is being affected as the UK enters an economic recession. How this will impact on the University is difficult to predict. On the one hand demand for education may well increase as people seek to defer entry into the job market and to up skill to enhance their future employment prospects. On the other hand, prospective students may be deterred by accumulating personal debt and future public funding rounds may prove considerably more challenging.

The University is well placed to confront these challenges, having grasped an agenda for change and made considerable progress to secure its financial future.

Corporate Governance Statement

Corporate Governance and Accountability Arrangements

The University is a body incorporated by Royal Charter. The University's governing body is Council, which is committed to achieving high standards of corporate governance, in line with accepted best practice. Accordingly Council believes it is appropriate to report on how the University has applied the principles set out in the Combined Code issued by the Financial Reporting Council on 23 July 2003.

The University Council

The University's Council comprises ex officio and co-opted external members, students, ex officio employees, employees elected by Senate and members appointed by Court. The roles of Chancellor and Pro-Chancellors (including the Chair of Council) are separated from the role of the University's chief executive, the Vice-Chancellor.

The Council of the University has adopted a Statement of Primary Responsibilities which is published on the University website. The statement sets out the Council's responsibilities in respect of powers of appointment and employment, financial and legal powers, planning, monitoring, control and student welfare.

The University is fully compliant with the Committee of University Chairman (CUC) Governance Code of Practice issued in November 2004.

The Council met six times during the year. Of its 25 members a majority are lay members drawn from outside the University.

The Committees of Council

The Council has the following committees: Audit and Risk Management, Equality and Diversity, Finance and Strategy, Health and Safety, Nominations and Remuneration. All of these committees are formally constituted with published terms of reference. With the exception of the Health and Safety Committee, the chair of each committee is a lay member of Council. The disclosures in relation to these committees follow those in respect of Council itself.

The Audit and Risk Management Committee comprises solely external members, three of whom are lay members of Council, and has no executive responsibility. The Committee has members with recent relevant financial experience in line with HEFCE guidance. The Audit and Risk Management Committee relies on the work of internal and external audit, on information provided by management and on the response of management to the questions it raises. The Committee met three times in the year.

The responsibilities of the Audit and Risk Management Committee include:

- reporting to Council annually on the effectiveness of the internal control system and the pursuit of value for money, together with an opinion on risk management;
- advising on the appointment of the internal auditor and approval of the internal audit plan;
- receipt of both an annual report from internal audit, which includes an opinion of the effectiveness of the University's system of internal control, and reports on each assignment including recommendations;
- advising the Council as necessary on the appointment of external auditors, to receive their reports and review their performance and effectiveness.

Internal Audit is responsible for providing an objective and independent appraisal of all the University's activities. The internal audit work programme is risk-based and is updated to take account of changes in the University's risk profile. Progress made on recommendations by the University is monitored by Internal Audit and reported to the Audit and Risk Management Committee.

In respect of its development, strategic management and financial responsibilities the Council receives recommendations and advice from the Finance and Strategy Committee. The Committee met five times during the year.

The Equality and Diversity Committee seeks to ensure that the equality and diversity policies are fully effective and that the University is in compliance with legislation. The Committee met twice during the year.

The Health and Safety Committee reports to the Council at least annually on health and safety matters including compliance with government legislation and regulations. The Committee met twice during the year.

The Nominations Committee makes recommendations for the appointment or re-appointment of members of Council, its committees and Court. The Committee met three times during the year.

The Remuneration Committee determines the annual remuneration of the most senior staff, including the Vice-Chancellor. Employee members have no involvement in determining their own salaries. The Committee met once during the year.

The University Senate

The Senate is the highest academic authority of the University. It is responsible for the promotion of academic work in both teaching and research, for the regulation of educational arrangements and the maintenance of discipline. It receives quality audit reports from both the Quality Assurance Agency and in-house departmental reviews. Currently it has 6 representatives on Council each appointed for two years.

A review of the effectiveness of Senate was conducted in 2006 and its recommendations have been implemented.

The University Court

The University Court is a formal body established under the Charter and Statutes whose main function is to provide a forum for the official receipt of the Annual Report and Financial Statements. It is also responsible for the formal appointment of the Chancellor and Pro-Chancellors.

Responsibilities of the Council

The Council 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.

The Council is responsible for ensuring proper accounting records are kept. These should disclose with reasonable accuracy at any time the financial position of the University and its subsidiary undertakings and enable Financial Statements to be prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. Within the terms and conditions of a Financial Memorandum agreed between the HEFCE and the Council of the University, the Council, through its designated office holder, is

Corporate Governance Statement

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 its subsidiary undertakings and the surplus or deficit and cash flows for the year.

In the preparation of the Financial Statements, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed;
- Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation.

The Council has taken reasonable steps to:

- ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the HEFCE and any other conditions which the HEFCE 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 its subsidiary undertakings and to prevent and detect fraud;
- secure the economical, efficient and effective management of the resources and expenditure of the University and its subsidiary undertakings;
- ensure that processes operate within the University to identify, evaluate and manage significant risks and to review the effectiveness of the system of internal control.

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

- clear definitions of the responsibilities of, and authority delegated to, heads of academic departments and administrative sections;
- a short- and medium-term planning process, supplemented by detailed annual income, expenditure and capital budgets;
- regular reviews of academic performance and financial results involving variance reporting and updates of financial outturns;
- defined and formalised requirements for the approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to appropriate levels set by Council;
- Financial Regulations, including financial controls and procedures, approved by the Audit and Risk Management Committee;
- a professional internal audit team whose annual programme is approved by the Audit and Risk Management Committee;
- a Risk Register which contains weightings (of likelihood and impact) linked to the Strategic Plan which also informs the internal audit planning process.

Any system of internal control or risk management is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable, but not absolute, assurance against material misstatement or loss.

Corporate Governance Statement

The following table illustrates the attendance of members of the University Council at key committees

Name	Council		Audit & Risk		Finance & Strategy		Nominations		Remuneration	
	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended
Mr Neil Barnard	4	4								
Mr Allan Blundell	4	4								
Mr David Boyle	4	4			3	3				
Prof Joan Busfield	4	4			5	5	2	2		
Mrs Kuldip Byatt	2	1								
Ms Nicola Colston	4	3	3	3						
Mr Andrew Connolly					5	5				
Mr Tom Cornford	4	3								
Mr Richard Doughty	4	4								
Prof Andy Downton					5	5				
Mrs Celia Edey	4	4								
Dr Tony Elston	4	3								
Mrs Sue Endean									1	1
Mrs Julie Garbutt	4	2					2	1		
Peter Giblin			3	3						
Mr Bill Gore	4	4			5	5	1	1	1	1
Mr Derek Lewis	4	2			5	5			1	1
Mrs Elizabeth Lloyd			3	3						
Dr Aulay Mackenzie	4	4								
Prof Rob Massara	4	4			5	5				
Tim Melville-Ross	2	2			2	2	1	1		
Sir Robin Mountfield	4	4			5	3				
Prof Abhinay Muthoo	1	1								
Prof Richard Nicol	3	1	3	1					1	1
Prof Jules Pretty	4	4								
Dr Tony Rich					5	5	3	3	1	1
Prof Colin Riordan	4	4			5	5	2	2	1	1
Dr Rainer Schulze	4	4								
Prof Kevin Schürer	1	1								
Prof Nigel South					5	5				
Mrs Rosy Stamp	4	3							1	1
Dr Sam Steel	4	4								
Ms Auriol Stevens	4	3			5	5	2	2		
Prof Christine Temple					5	5				
Mr Phillip Tolhurst	4	3			5	5			1	1

Independent auditors' report to the Members of Council of the University of Essex

We have audited the financial statements of the University of Essex for the year ended 31 July 2008 which comprise the Consolidated Income and Expenditure Account, the Consolidated Statement of Total Recognised Gains and Losses, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement and the related Notes to the Financial Statements 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University of Essex, as a body, in accordance with the Financial Memorandum dated July 2007. Our audit work has been undertaken so that we might state to the Council's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Council and Auditors

As described in the statement of the Council's responsibilities, the Council is responsible for the preparation of the financial statements in accordance with the University's statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education and other applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 on Accounting for Further and Higher Education. We also report whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by University of Essex have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

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

We read the other information contained in the Financial Review, including the corporate governance statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of Opinion

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

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

Opinion

In our opinion:

(a) The financial statements give a true and fair view of the state of affairs of the University of Essex and the Group as at 31 July 2008 and of the surplus of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;

(b) In all material respects income from Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University of Essex have been applied only for the purposes for which they were received; and

(c) In all material respects income has been applied in accordance with the University of Essex's statutes and, where appropriate, with the Financial Memorandum, dated July 2007 with the Higher Education Funding Council for England.

Deloitte LLP
Chartered Accountants and Registered Auditors
St. Albans, United Kingdom
5th December 2008

Accounting Policies

Accounting Convention

The Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of fixed asset investments and endowment asset investments, and in accordance with both the Statement of Recommended Practice - Accounting for Further and Higher Education (SORP) issued in July 2007 and applicable accounting standards and Financial Reporting Standards.

Basis of Consolidation

The Financial Statements comprise the consolidated results of the University of Essex and its subsidiaries (Note 26) and the University's share of the results and reserves of its joint venture companies. These subsidiaries undertake activities which, for legal and commercial reasons, are more appropriately operated through limited companies. Their activities include a hotel, conferences and services for a wide variety of commercial organisations and individuals, the rental of student residences, the acquisition, protection and licensing of intellectual property from the University and the holding of land pending its development as a Research Park. The subsidiary companies transfer all taxable profits to the University through Gift Aid. Joint ventures are consolidated according to the proportionate share the University has in each.

The consolidated Financial Statements do not include those of the University of Essex Students' Union. The grant to the Students' Union is disclosed in Note 8, and the Union's financial results are summarised in Note 27.

Recognition of Income

Income from HEFCE recurrent grants is included net of grant paid over by the University to its partner colleges. Income from HEFCE revenue grants for specific purposes is included to the extent that expenditure is incurred during the year. Grants and donations received in respect of expenditure on fixed assets are treated as deferred capital grants and released to the income and expenditure account in line with depreciation, over the useful economic life of the asset.

Income from research grants and contracts and other services rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards indirect costs. All other income including that from endowments, short-term deposits and other investments is credited to the Income and Expenditure Account on a receivable basis.

Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event when it is probable that a transfer of economic benefit will be required to settle the obligation, and this transfer can be reliably estimated.

Pension Schemes

The University has three principal pension schemes for employees. These are the Universities Superannuation Scheme (USS) for academic and related staff, and the Local Government Pension Scheme (LGPS) and the University of Essex Pension Scheme (UEPS) for other staff. The assets of the schemes are held in separate trustee-administered funds. All three schemes are defined benefit schemes and are contracted out of the State Second Pension (SP2).

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

The assets of the LGPS and UEPS are measured using closing market values. LGPS and UEPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

Provision has been made to meet a past service shortfall of members of the Local Government Pension Scheme who took early retirement. The payments made to these members are largely set against this provision.

Foreign Currencies

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

Investments

Fixed asset investments and endowment asset investments are included in the Balance Sheet at market value unless the market value cannot be readily ascertained and the yields are unquantifiable and of a long-term nature, such as seedcorn funds. In such instances, it is considered prudent to charge the cost of the investment to the revenue account in the year of its acquisition. Increases or decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where a permanent diminution in value of an asset occurs, the excess will be charged to the Income and Expenditure Account to the extent that it is not covered by a revaluation surplus. The profit or loss on the disposal of an asset is accounted for in the year in which the disposal occurs as the difference between the net sale proceeds and the net carrying amount, whether carried at historical cost or valuation.

Investments in equities and gilts are generally treated as fixed asset investments whilst investments in the form of term deposits with banks and other financial institutions are shown as current asset investments.

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

Accounting for Charitable Donations

Unrestricted charitable donations are recognised when the donation has been received or if, before receipt, there is sufficient evidence of certainty that the donation will be received and its value can be measured with sufficient reliability.

Accounting Policies

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 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;
3. 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.

The total return is the whole of the investment return received by the institution on the permanent endowment funds regardless of how it has arisen. This, less any part of the return which has previously been applied for the purposes of the institution, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are, in practice, available within 24 hours without penalty. No investments, however liquid, are included in cash.

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

Maintenance of Premises

The University has a five-year rolling maintenance plan which is reviewed on an annual basis. The cost of all maintenance is charged to the Income and Expenditure Account as incurred.

Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988.

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

Land and Buildings

Land and buildings are stated at cost. Land is held freehold and is not depreciated as it is considered to have an indefinite useful life. Buildings are generally depreciated over their expected useful lives of 50 years, except for certain minor works for which a 20-year depreciation policy has been adopted.

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

Equipment

Equipment, including computer hardware and software, costing less than £25,000 per individual item or group of related items which together comprise one operational unit, is written off in the year of acquisition.

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

- motor vehicles and other general equipment - between five and ten years dependent upon the expected useful economic life;
- computer equipment - three years;
- equipment acquired for specific research projects - project life (generally three years).

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

Stocks

The stocks are stores for general maintenance, catering supplies of food and liquor, computers and computer spares, science workshop stocks held centrally for the science departments, stationery and consumables. They are valued at the lower of cost or net realisable value.

Financial Instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments. An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

Consolidated Income and Expenditure Account

For the year ended 31 July 2008

	Note	2007-08 £'000	2006-07 £'000
Income			
Funding council grants	1	**33,622**	33,741
Tuition fees and educational contracts	2	**35,329**	30,303
Research grants and contracts	3	**15,744**	14,268
Other income	4	**35,278**	22,107
Endowment and investment income	5	**1,205**	1,247
Total income: Group and share of joint ventures		**121,178**	101,666
Less: share of income in joint ventures		**(11,976)**	(971)
Total income		**109,202**	100,695
Expenditure			
Staff costs	7	**67,392**	62,736
Other operating expenses	8	**32,948**	32,248
Depreciation	10	**4,406**	3,921
Interest payable	9	**2,482**	2,651
Total expenditure	10	**107,228**	101,556
Surplus/(Deficit) on continuing operations after depreciation of tangible fixed assets at cost and before tax		**1,974**	(861)
Share of operating (loss)/profit in joint ventures		**(353)**	(11)
Surplus/(Deficit) on continuing operations after depreciation of tangible fixed assets and joint ventures losses and after tax		**1,621**	(872)
Profit on disposal of fixed assets		**0**	6,151
Surplus for the year	6	**1,621**	5,279
(Deficit)/surplus for the year transferred (to)/from accumulated income in endowment funds		**6**	16
Surplus for the year retained within general reserves		**1,627**	5,295

All items of income and expenditure arise from continuing operations.

Balance Sheets

As at 31 July 2008

	Note	Consolidated 2007-08 £'000	Consolidated Re-stated Notes 12-13 and 18-21 2006-07 £'000	University 2007-08 £'000	University Re-stated Notes 12-13 and 18-21 2006-07 £'000
Fixed assets					
Tangible assets	11	**136,405**	128,882	**113,986**	105,996
Investments	12	**9,277**	10,354	**24,390**	25,437
Investment in joint ventures					
Share of gross assets	26	**29,272**	10,098	**0**	0
Share of gross liabilities	26	**(8,274)**	(10,358)	**0**	0
		166,680	138,976	**138,376**	131,433
Endowment assets	13	**2,670**	2,602	**2,670**	2,602
Current assets					
Stocks and stores		**289**	291	**272**	273
Debtors	14	**6,834**	5,879	**7,791**	7,103
Debtors - amounts due after more than one year	14	**0**	750	**19,668**	21,404
Investments	12	**6,383**	9,873	**6,383**	9,873
Cash at bank and in hand		**4,573**	4,514	**4,269**	3,558
		18,079	21,307	**38,383**	42,211
Creditors - amounts falling due within one year	15	**(18,049)**	(17,118)	**(17,766)**	(16,926)
Net current assets		**30**	4,189	**20,617**	25,285
Total assets less current liabilities		**169,380**	145,767	**161,663**	159,320
Creditors - amounts falling due after more than one year	16	**(36,562)**	(38,592)	**(36,562)**	(38,592)
Provisions for liabilities and charges	17	**(439)**	(1,217)	**(439)**	(1,217)
Total net assets excluding pension liability		**132,379**	105,958	**124,662**	119,511
Pension liability	25	**(21,577)**	(12,383)	**(21,577)**	(12,383)
Total net assets including pension liability		**110,802**	93,575	**103,085**	107,128
Deferred capital grants and gifts	18	**51,799**	47,744	**51,799**	47,744
Endowments					
Restricted Expendable	19	**2,291**	2,195	**2,291**	2,195
Restricted Permanent	19	**379**	407	**379**	407
		2,670	2,602	**2,670**	2,602
Reserves					
Income and expenditure account excluding pension reserve	21	**76,495**	53,254	**68,778**	66,807
Pension reserve	25	**(21,577)**	(12,383)	**(21,577)**	(12,383)
Income and expenditure account including pension reserve	21	**54,918**	40,871	**47,201**	54,424
Revaluation reserve	20	**1,415**	2,358	**1,415**	2,358
		56,333	43,229	**48,616**	56,782
Total Funds		**110,802**	93,575	**103,085**	107,128

The Financial Statements on pages 11 to 34 were approved by the Council of the University on 24th November 2008 and signed by:

PROFESSOR C. RIORDAN
Vice-Chancellor

W GORE
Chair of Council

A. CONNOLLY
Director of Finance

Consolidated Cash Flow Statement

For the year ended 31 July 2008

	Note	2007-08 £'000	Re-stated Note 23 2006-07 £'000
Net cash inflow from operating activities	23	**5,806**	1,788
Returns on investment and servicing of finance			
Income from endowment asset investments		**109**	105
Income from investments		**1,096**	1,142
Interest paid		**(2,188)**	(2,310)
		(983)	(1,063)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 11)		**(11,929)**	(15,842)
Receipts from sale of tangible fixed assets		**0**	6,555
Deferred capital grants received		**5,963**	9,765
Endowment funds invested		**(16)**	(14)
		(5,982)	464
Cash (outflow)/inflow before management of liquid resources		**(1,159)**	1,189
Management of liquid resources			
Decrease/(Increase) in short term investments		**3,490**	2,491
Movement in endowment assets		**0**	3
		3,490	2,494
Financing			
Loan repayment in the year		**(2,030)**	(2,030)
(Decrease)/increase in cash in the year		**301**	1,653

Reconciliation of net cash flow to movement in net debt

	Note	2007-08 £'000	2006-07 £'000
Increase in cash in the year	24	**301**	1,653
Cash (inflow) from management of liquid resources		**(3,490)**	(2,494)
Loan repayment in the year		**2,030**	2,030
Movement in net debt in the period		**(1,159)**	1,189
Net debt at 1 August 2007		**(25,790)**	(26,979)
Net debt at 31 July 2008	24	**(26,949)**	(25,790)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2008

	Note	2007-08 £'000	Re-stated 2006-07 £'000
Surplus on continuing operations after depreciation of assets at cost, disposal of assets and tax		**1,621**	5,279
Unrealised (losses)/gains on investments	12	**(943)**	591
(Depreciation)/Appreciation of endowment asset investments	19	**(190)**	87
New endowments	19	**264**	14
Actuarial (loss)/gain in respect of pension schemes	25	**(9,194)**	1,948
Total recognised gains relating to the year		**(8,442)**	7,919
Prior year adjustment in respect of deferred capital grant	18	**0**	3,976
Increased holding in joint ventures		**21,614**	0
Total recognised gains since last report		**13,172**	11,895

Reconciliation

Opening reserves and endowments	**58,214**	48,193
Opening pension reserve	**(12,383)**	(14,257)
Recognised gains relating to the year	**13,172**	11,895
Closing reserves and endowments	**59,003**	45,831

Notes to the Financial Statements

For the year ended 31 July 2008

		2007-08 £'000	2006-07 £'000
1	**Funding council grants**		
	Recurrent (teaching)	**18,507**	18,284
	Recurrent (research)	**10,871**	10,412
	Special grants	**2,884**	3,855
	Deferred capital grants released in year - buildings (note 18)	**818**	880
	Deferred capital grants released in year - equipment (note 18)	**542**	310
		33,622	33,741
2	**Tuition fees and educational contracts**		
	Full-time HE tuition fees		
	UK and EU students charged home fees	**13,619**	10,457
	Students charged overseas fees	**15,868**	14,691
	Part-time credit-bearing fees	**769**	764
	Non-credit-bearing tuition fees	**2,488**	2,568
	NHS contracts	**2,437**	1,622
	Research support grants	**148**	201
		35,329	30,303
3	**Research grants and contracts**		
	Research Councils	**11,275**	9,825
	UK-based charities	**989**	962
	UK central government, local authorities, health and hospital authorities	**680**	1,094
	UK industry, commerce and public corporations	**425**	536
	European Union government bodies	**1,306**	1,277
	Other overseas	**746**	356
	Other sources	**218**	165
	Deferred capital grants (non-funding council) released in year - equipment (note 18)	**105**	53
		15,744	14,268
4	**Other income**		
	Other services rendered:		
	Course validation fees	**1,878**	1,202
	UK central government, local authorities, health and hospital authorities	**241**	523
	UK industry, commerce and public corporations	**348**	325
	European Union government bodies	**23**	72
	European Union other	**2**	5
	Other overseas	**65**	20
	Other sources	**154**	170
	Residences, catering and conferences	**15,325**	14,063
	Deferred capital grants (non-funding council) released in year - buildings (note 18)	**443**	441
	Day Nursery	**948**	824
	Other income	**3,875**	3,491
	Income from joint ventures	**11,976**	971
		35,278	22,107

Notes to the Financial Statements

For the year ended 31 July 2008

	2007-08 £'000	Re-stated 2006-07 £'000
5 Endowment and investment income		
Income from fixed asset investments	**328**	355
Income from expendable endowments (note 19)	**93**	90
Income from permanent endowments (note 19)	**16**	15
Income from short-term investments	**768**	787
	1,205	1,247
6 Surplus for the year		
The surplus on continuing operations for the year is made up as follows:		
University's surplus for the year	**1,810**	5,259
Surplus generated by subsidiary undertakings and transferred to the University under gift aid	**161**	260
Other deficits generated by subsidiary undertakings and joint ventures	**(344)**	(240)
	1,627	5,279
7 Staff costs		
Wages and salaries	**55,803**	51,780
Social security costs	**4,409**	4,226
Other pension costs (including FRS 17 adjustments as per note 25)	**7,180**	6,730
	67,392	62,736
Emoluments of the Vice-Chancellor for year to 31 July		
Professor Sir I. Crewe	**31**	179
Professor C. Riordan	**155**	0
	186	179

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to USS are paid at the same rate as for other employees. For Professor Sir I. Crewe, these amounted to £4,643 (2006-07 £27,626) and for Professor Riordan £22,448 (2006-07 £nil).

No higher paid member of staff received compensation for loss of office during the two years to 31 July 2008.

Remuneration of higher paid staff, excluding employer's pension contributions:	Number of staff	Number of staff
£100,000-£109,999	**1**	0
£110,000-£119,999	**1**	1
	2	1

The average monthly number of staff (including senior post-holders) employed by the University and its subsidiaries during the year, expressed as full-time equivalents by grade, was:

Academic staff	**549**	521
Research staff	**122**	121
Senior support staff	**320**	291
Other support staff	**290**	279
General support staff	**424**	431
	1,705	1,643

Notes to the Financial Statements

For the year ended 31 July 2008

	2007-08 £'000	2006-07 £'000
8 Other operating expenses		
Audit fees	**126**	109
Books and periodicals	**1,630**	1,519
Consumables and laboratory expenditure	**1,185**	1,144
Early retirements and severances	**106**	654
Equipment	**2,801**	1,887
Food and Drink	**834**	856
Gas, water and electricity	**3,038**	2,780
Grants to Students' Union	**722**	925
Insurance	**466**	458
Long-term maintenance programme	**2,505**	2,156
Minor works	**380**	432
Other expenses	**6,142**	5,757
Postage and telephones	**916**	788
Printing and stationery	**1,176**	962
Professional and consultancy fees	**1,844**	3,493
Rates and rental of premises	**370**	402
Repairs and routine maintenance of estates	**2,418**	1,956
Research survey fieldwork	**1,824**	1,669
Scholarships (fee waivers and bursaries)	**1,805**	1,552
Student Union debt written off	**0**	741
Impairment of loan to Carisbrooke Essex partnership	**750**	0
Travel and subsistence	**1,910**	2,008
	32,948	32,248
Audit fees include:		
External audit	**65**	59
Taxation advice supplied by external audit	**61**	50
	126	109
9 Interest payable		
Loans not wholly repayable within five years	**2,188**	2,310
Net charge on pension scheme	**294**	341
	2,482	2,651

10 Analysis of total expenditure by activity

	Staff costs £'000	Other operating expenses £'000	Depreciation £'000	Interest paid £'000	Total £'000	2006-07 £'000
Academic departments and centres	**36,634**	**4,575**	**87**	**0**	**41,296**	37,795
Academic services	**4,882**	**3,390**	**0**	**0**	**8,272**	9,250
Research grants and contracts	**7,246**	**4,926**	**105**	**0**	**12,277**	11,291
Residences, catering and conferences	**3,927**	**5,542**	**1,202**	**2,056**	**12,727**	12,123
Premises	**4,068**	**5,631**	**2,962**	**132**	**12,793**	10,890
Administration and central services	**6,843**	**2,849**	**44**	**0**	**9,736**	9,356
Other services rendered	**248**	**377**	**0**	**0**	**625**	903
General educational services	**964**	**2,862**	**0**	**0**	**3,826**	3,453
Student and staff facilities	**2,297**	**1,718**	**6**	**0**	**4,021**	3,570
Early retirements and severances	**0**	**106**	**0**	**0**	**106**	654
Other expenses	**283**	**972**	**0**	**294**	**1,549**	2,271
Total per income and expenditure account	**67,392**	**32,948**	**4,406**	**2,482**	**107,228**	101,556

The depreciation charge is represented by:		
Deferred capital grants released (Note 18)		**1,908**
General income		**2,498**
		4,406

Notes to the Financial Statements

For the year ended 31 July 2008

11 Tangible fixed assets

	University Land and Buildings	University Equipment	Assets in course of construction	Total	Companies Land and Buildings	Equipment	Consolidated Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
At 1 August 2007	119,940	4,270	2,325	**126,535**	24,699	197	**151,431**
Additions	**3,296**	**2,895**	**5,738**	**11,929**	**0**	**0**	**11,929**
Transfers	**1,919**	**0**	**(1,919)**	**0**	**0**	**0**	**0**
Disposals	**0**	**(60)**	0	**(60)**	**0**	**0**	**(60)**
At 31 July 2008	**125,155**	**7,105**	**6,144**	**138,404**	**24,699**	**197**	**163,300**
Depreciation							
At 1 August 2007	18,796	1,743	0	**20,539**	1,852	158	**22,549**
Charge for year	**2,820**	**1,119**	0	**3,939**	**463**	**4**	**4,406**
Depreciation on disposals	**0**	**(60)**	0	**(60)**	**0**	**0**	**(60)**
At 31 July 2008	**21,616**	**2,802**	**0**	**24,418**	**2,315**	**162**	**26,895**
Net book value							
At 31 July 2008	**103,539**	**4,303**	**6,144**	**113,986**	**22,384**	**35**	**136,405**
At 1 August 2007	101,144	2,527	2,325	105,996	22,847	39	128,882

University Land and Buildings include £4.082m (2006-07 £4.082m) in respect of freehold land which is not depreciated and leasehold properties with a net book value of £2.287m (2006-07 £1.393m).

Additions to University land and buildings in the year includes £5.378m for assets in the course of construction and for which no depreciation charge has been made. Land, buildings and equipment with a net book value of £51.799m (2006-07 re-stated £47.743m) have been funded by capital grants of £32.486m and other gifts and donations of £19.313m.

The University has identified certain works of art as heritage assets, but these are not considered material to the accounts.

12 Investments

	Consolidated 2007-08	Consolidated Re-stated 2006-07	University 2007-08	University Re-stated 2006-07
	£'000	£'000	£'000	£'000
At 1 August 2007 as previously stated	**10,354**	309	**25,437**	15,392
Re-classification of endowments		9,453	**0**	9,453
	10,354	9,762	**25,437**	24,845
Additions:	**0**	0	**30**	0
Reclassified as cash	**(134)**	0	**(134)**	0
Revaluations (debited)/ credited to the revaluation reserve	**(943)**	592	**(943)**	592
At 31 July 2008	**9,277**	10,354	**24,390**	25,437
Comprising:				
Treasury gilts	**279**	262	**279**	262
Equities	**8,261**	9,336	**8,261**	9,335
Fixed Interest investments	**688**	707	**688**	707
Subsidiary companies:				
University of Essex Research Park Holdings Ltd	**0**	0	**12,191**	12,191
Universal Accommodation Group Ltd	**0**	0	**2,892**	2,893
Other investments	**49**	49	**79**	49
	9,277	10,354	**24,390**	25,437

Land designated for the development of a Research Park is held by the University of Essex Research Park Holdings Ltd, a wholly owned subsidiary.Details of investments in all subsidiary undertakings are included in note 30. During the year, the University acquired an additional 30,000 shares at £1 each in its wholly owned subsidiary WPML Ltd.

In accordance with the 2007 Statement of Recommended Practice (SORP 2007), former endowments assets with a value at 31 July 2006 of £9.453m have been re-classified as investments.

Current asset investments relate to short term deposits with immediate access.

Notes to the Financial Statements

For the year ended 31 July 2008

13 Endowment assets

	2007-08 £'000	2006-07 £'000
Re-stated		
Balance at 1 August 2007	**2,602**	2,489
New endowments invested	**16**	14
(Decrease)/Increase in market value of investments	**(190)**	87
(Decrease)/Increase in cash balances held for endowment funds	**242**	12
At 31 July 2008	**2,670**	2,602
Represented by:		
Fixed interest stocks	**481**	488
Equities	**1,502**	1,669
Cash at bank held for endowment funds	**687**	445
Total endowment assets at market value	**2,670**	2,602

In accordance with the 2007 Statement of Recommended Practice (SORP 2007), former endowments assets with a value at 31 July 2006 of £9.453m have been re-classified as investments (note 12).

14 Debtors

		Consolidated		University
	2007-08 £'000	2006-07 £'000	2007-08 £'000	2006-07 £'000
Trade debtors	**2,567**	1,772	**2,402**	1,696
Student fees	**822**	566	**822**	566
Research debtors	**3,284**	2,599	**3,284**	2,599
Prepayments and accrued income	**161**	942	**161**	942
Amount owed by Students' Union within one year	**0**	0	**0**	0
Amounts owed by subsidiary undertakings	**0**	0	**1,122**	1,300
Total amounts falling due within one year	**6,834**	5,879	**7,791**	7,103
Long-term debtor - Universal Accommodation Group	**0**	0	**19,668**	20,654
Long-term debtor - Carisbrooke Essex Partnership	**0**	750	**0**	750
	6,834	6,629	**27,459**	28,507

On acquisition of Universal Accommodation Group Ltd in 2004, the University loaned the company £21.779m in order for the company to repay its debt.

An impairment of the debt of £0.75m owed by the Carisbrooke Essex Partnership at 31st July 2007 was made during the year on the basis that the Partnership was unlikely to be able to make a repayment in the immediate future due to the downturn in the housing market. The impairment has been charged to the Income and Expenditure account.

15 Creditors: amounts falling due within one year

		Consolidated		University
	2007-08 £'000	2006-07 £'000	2007-08 £'000	2006-07 £'000
Secured loans	**2,030**	2,030	**2,030**	2,030
Payments received in advance	**4,920**	3,734	**4,920**	3,734
Research grants received on account	**1,849**	2,032	**1,849**	2,032
Trade creditors	**2,528**	2,261	**2,273**	2,204
Social security and other taxation payable	**1,456**	1,329	**1,428**	1,306
Accruals and deferred income	**5,266**	5,732	**5,266**	5,620
	18,049	17,118	**17,766**	16,926

Notes to the Financial Statements

For the year ended 31 July 2008

16 Creditors: amounts falling due after more than one year

		Consolidated		University
	2007-08	**2006-07**	**2007-08**	2006-07
	£'000	**£'000**	**£'000**	£'000
Loans secured on property:				
repayable between one and two years	**2,030**	2,030	**2,030**	2,030
repayable between two and five years	**6,090**	6,090	**6,090**	6,090
repayable after five years	**28,442**	30,472	**28,442**	30,472
	36,562	38,592	**36,562**	38,592

Loans of £38.6m (£40.6m 2006-07) secured on the freehold property of the University are repayable by instalments falling due between 1 August 2008 and 10 June 2029.

The University has 5 interest rate swaps reflecting its policy of ensuring circa 71% of debt outstanding is covered by fixed interest payments. The average weighted interest rate on total debt, including interest rate swaps, was 5.5% for the financial year.

As at 31 July 2008, the University's derivative financial instruments had a fair value of -£155k (2006-07 £635k).

17 Provisions for liabilities and charges

	Consolidated and University			
	Part-time employees	**Future severances**	**Early retirement**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
At 1 August as previously stated	597	407	213	1,217
Utilised in year	**0**	**(205)**	**(48)**	**(253)**
Transfers (to)/from income and expenditure account	**(577)**	**34**	**18**	**(525)**
At 31 July 2008	**20**	**236**	**183**	**439**

Decisions by the European Court of Justice in relation to part-time employees led to an increase in the provision in 2006-07 to meet pension liabilities in respect of existing and former members of staff, covering the period from 1977 to 31 July 2007. During the 2007-08 year, advice was received to the effect that such liabilities relating to members of the Local Government Pension Scheme (LGPS) would be recovered via future actuarial valuations. The provision was substantially in respect of this scheme and has accordingly been released to the income and expenditure account with the exception of a small residual balance which relates to members of the Universities Superannuation Scheme.

The future severances provision exists to meet the costs of employees who have agreed to take early retirement under the University's Early Retirement Scheme. It will be released during the next financial year.

The early retirement provision has been set up to meet enhanced unfunded pension benefits for former staff who are members of the Local Government Pension Scheme. It is estimated that the provision will be fully released to the Income and Expenditure Account by 2016.

18 Deferred capital grants and gifts

	Consolidated and University		
	Funding Council	**Other grants**	**Total**
	£'000	**£'000**	**£'000**
At 1 August 2007 Re-stated			
Buildings	27,971	18,529	46,500
Equipment	1,191	53	1,244
	29,162	18,582	47,744
Cash received			
Buildings	**3,501**	**1,124**	**4,625**
Equipment	**1,183**	**155**	**1,338**
	4,684	**1,279**	**5,963**
Released to income and expenditure account (notes 1, 3 and 4):			
Buildings	**(818)**	**(443)**	**(1,261)**
Equipment	**(542)**	**(105)**	**(647)**
	(1,360)	**(548)**	**(1,908)**
At 31st July 2008			
Buildings	**30,654**	**19,210**	**49,864**
Equipment	**1,832**	**103**	**1,935**
	32,486	**19,313**	**51,799**

Notes to the Financial Statements

For the year ended 31 July 2008

18 Deferred capital grants and gifts (continued)

Grants received in the year included £4.7m from HEFCE for both building costs and equipment. In addition NHS trusts, the East of England Development Agency and the Department of Communities and Local Government contributed £1.3m for the Southend Campus development.

Grants released to the income and expenditure account are to fund depreciation charges as shown in note 10.

Grants amounting to £3.976m received from various sources in respect of land that had not been depreciated were released to the Income and Expenditure account as at 31st July 2007 in accordance with the 2007 Statement of Recommended Practice (SORP 2007).

19 Endowments

	Consolidated and University			
				Re-stated
	Restricted Expendable £'000	**Restricted Permanent £'000**	**2007-08 Total £'000**	2006-07 Total £'000
Re-stated balances				
Capital value	**2,124**	**404**	**2,528**	2,428
Accumulated income	**71**	**3**	**74**	89
At 1 August as restated	**2,195**	**407**	**2,602**	2,517
Net additions	**260**	**4**	**264**	14
(Depreciation)/Appreciation of endowment asset investments	**(158)**	**(32)**	**(190)**	87
Income for year (note 5)	**93**	**16**	**109**	105
Expenditure for year	**(99)**	**(16)**	**(115)**	(121)
At 31st July 2008	**2,,291**	**379**	**2,670**	2,602
Capital value	**2,226**	**376**	**2,602**	2,528
Accumulated income	**65**	**3**	**68**	74
	2,291	**379**	**2,670**	2,602

In accordance with the 2007 Statement of Recommended Practice (SORP 2007), former endowments assets with a value at 31 July 2006 of £9,453m have been re-classified as investments (note 12).

20 Revaluation Reserve

	Consolidated and University	
		Re-stated
	2007-08 £'000	2006-07 £'000
At 1 August 2007 as previously stated	**114**	114
Prior year adjustments in respect of endowments re-classified (note 21)	**2,244**	0
	2,358	114
Market value adjustments in respect of endowments re-classified as investments		1,652
Revaluations in the year	**(943)**	592
At 31st July 2008	**1,415**	2,358

The prior year adjustments on the revaluation reserve arise from the 2007 Statement of Recommended Practice (SORP) under which former endowment assets with a value at 31 July 2006 of £9.479 have been re-classified as investments.

Notes to the Financial Statements

For the year ended 31 July 2008

21 Movement on general reserves

	Consolidated		University	
		Re-stated		Re-stated
	2007-08	2006-07	**2007-08**	2006-07
	£'000	£'000	**£'000**	£'000
At 1 August as previously stated	**29,094**	21,851	**42,647**	35,180
Prior year adjustment in respect of deferred capital grant	**3,976**		**3,976**	
Prior year adjustment in respect of endowments re-classified	**7,801**		**7,801**	
	40,871	21,851	**54,424**	35,180
Surplus for the year	**1,627**	5,295	**1,971**	5,519
Endowments re-classified as investments under 2007 SORP		10,045		10,045
Transfer to Revaluation Reserve (note 20)		(2,244)		(2,244)
Capital Grants transferred to reserves (note 18)		3,976		3,976
Increase in net assets from joint ventures	**21,614**	0	**0**	0
Actuarial (loss)/gain in respect of pension schemes	**(9,194)**	1,948	**(9,194)**	1,948
At 31 July	**54,918**	40,871	**47,201**	54,424
Balance represented by:				
Pension reserve	**(21,577)**	(12,383)	**(21,577)**	(12,383)
Income and expenditure account excluding pension reserve	**76,495**	53,254	**68,778**	66,807
At 31 July	**54,918**	40,871	**47,201**	54,424

University reserves include an amount of £12,121,000 resulting from the transfer of land that had £nil net book value from the University to University of Essex Research Park Holdings Ltd.

22 Capital commitments

	Consolidated and University	
	2007-08	2006-07
	£'000	£'000
Provision has not been made for the following capital commitments at 31 July 2008:		
Commitments contracted for	**6,519**	8,055
Authorised but not contracted for	**4,996**	0
	11,515	8,055

23 Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	Consolidated and University	
		Re-stated
	2007-08	2006-07
	£'000	£'000
Surplus on continuing operations after depreciation of assets at cost	**1,621**	(872)
Share of operating loss in joint ventures	**353**	11
Depreciation (note 10)	**4,406**	3,921
Deferred capital grants released to income (note 18)	**(1,908)**	(1,684)
(Increase) /Decrease in investment assets	**1,077**	(139)
Decrease/(increase) in stocks	**2**	180
Decrease/(increase) in debtors (note 14)	**(205)**	293
(Decrease)/increase in creditors	**431**	(1,471)
(Decrease)/increase in provisions (note 17)	**(778)**	412
Endowment and investment income	**(1,205)**	(1,247)
Interest payable (note 9)	**2,188**	2,310
Pension cost less contributions payable	**(176)**	74
Net cash inflow from operating activities	**5,806**	1,788

24 Analysis of changes in net debt

	Re-stated At 1 August 2,007 £'000	**Cash flows £'000**	**Other changes £'000**	**At 31 July 2,008 £'000**
Cash at bank and in hand	4,514	**59**	**0**	**4,573**
Endowment asset investments	445	**242**	**0**	**687**
	4,959	**301**	**0**	**5,260**
Current asset investments (short term deposits)	9,873	**(3,490)**	**0**	**6,383**
	14,832	**(3,189)**	**0**	**11,643**
Debt due within one year	(2,030)	**2,030**	**(2,030)**	**(2,030)**
Debt due after one year	(38,592)	**0**	**2,030**	**(36,562)**
	(25,790)	**(1,159)**	**0**	**(26,949)**

Notes to the Financial Statements

For the year ended 31 July 2008

25 Pension Schemes

The University has three principal pension schemes for employees. These are the Universities Superannuation Scheme (USS) for academic and related staff, and the Local Government Pension Scheme (LGPS) and the University of Essex Pension Scheme (UEPS) for other staff. The assets of the schemes are held in separate trustee-administered funds. All three schemes are defined benefit schemes and are contracted out of the State Earnings-Related Pension Scheme.

LGPS became a closed scheme from August 1997 and subsequently all non-academic and related staff who were not members of a pension scheme could join the UEPS. As UEPS became a closed scheme from March 2004, all new staff are now eligible to join USS.

The total pension cost for the University and its subsidiary undertakings was:	**2007-08 £'000**	2006-07 £'000
Contribution to USS	**5,470**	4,913
Contribution to LGPS	**524**	571
LGPS additional University costs to fund past service deficiency	**901**	719
Contributions to UEPS	**582**	618
UEPS additional University costs to fund past service deficiency	**173**	176
Net adjustment from FRS 17 staff costs	**(470)**	(267)
Total pension cost	**7,180**	6,730

The total FRS 17 pension liability for the University and its subsidiary undertakings was:

	2007-08 £'000	2006-07 £'000
LGPS pension liability	**(17,967)**	(10,721)
UEPS pension liability	**(3,610)**	(1,662)
Total pension liability	**(21,577)**	(12,383)

Universities Superannuation Scheme (USS)

This is a defined benefit scheme which is contracted out of the State Second Pension (S2P).The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the University is unable to 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 contribution payable to the scheme in respect of the accounting period.

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

Standard mortality tables were used as follows:

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

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

Males	19.8 years
Females	22.8 years

For the year ended 31 July 2008

25 Universities Superannuation Scheme (continued)

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

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pension Act 1995, the scheme was 126% funded at that date. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded. On a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company. Using the FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and the changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (ie the valuation rate of interest). On the FRS 17 basis, using an AA bond discount rate of 6% based upon spot yields, the actuary estimated that the funding level at 31 March 2008 was above 104%. An estimate of the funding level measured on a buy-out basis was approximately 78%.

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

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact upon scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actaurial valuation, rated down by a further year)	Increase by £0.8 billion

The USS is a last man standing scheme so that in the event of the insolvency of any participating employers in the 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 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 cashflow 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 the 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.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of the valuation. The contribution rate for employees is 6.35%.

Notes to the Financial Statements

For the year ended 31 July 2008

25 Local Government Pension Scheme (LGPS)

The Essex County Council LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2007-08 averaged 15.2% for the University (13.00% manual workers) and 6% for employees (5% for manual workers). In addition, the University made a further payment of £901,126 (2006-07 £718,967) towards the scheme deficiency.

The pensions cost is assessed every three years in accordance with the advice of a qualified actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation	31 March 2007
Actuarial method	Projected Unit
Investment return pre retirement	6.9% per annum
Investment return post retirement	5.4% per annum
Pension increases	3.1% per annum
Salary scale increases	4.6% per annum
Market value of assets at date of last valuation (whole fund)	£3,043 million

The proportion of members' accrued benefits covered by the actuarial value of assets (whole fund) was 79.6%.

Actuarial Assumptions

A full actuarial valuation was carried out at 31 March 2007, and updated to 31 July 2008 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-08 %	At 31-Jul-07 %
Financial Assumptions		
Rate of increase in salaries	**5.30**	4.70
Rate of increase in pension payments	**3.80**	3.20
Expected return on assets	**6.92**	7.01
Discount rate for liabilities	**5.90**	5.80
Inflation assumptions	**3.80**	3.20
Split of assets between investment categories		
Equities	**68.60**	70.60
Government Bonds	**9.20**	8.40
Other Bonds	**7.60**	6.30
Property	**10.10**	12.40
Cash	**4.50**	2.30

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31-Jul-08 %	**Whole fund value at 31-Jul-08 £'000**	Long-term rate of return expected at 31-Jul-07 %	Whole fund value at 31-Jul-07 £'000	Long-term rate of return expected at 31-Jul-06 %	Whole fund value at 31-Jul-06 £'000
Equities	**7.50**	**1,979,000**	7.50	2,220,000	7.00	1,839,000
Government Bonds	**4.80**	**265,000**	4.90	264,000	4.40	290,000
Other Bonds	**5.90**	**219,000**	5.80	198,000	5.10	184,000
Property	**6.50**	**291,000**	6.50	390,000	6.00	342,000
Cash	**5.00**	**130,000**	5.75	72,000	4.50	57,000
Total market value of assets		**2,884,000**		3,144,000		2,712,000
University of Essex estimated asset share		**28,792**		31,388		28,502
Present value of scheme liabilities		**(46,792)**		(42,142)		(40,536)
(Deficit) in the scheme		**(18,000)**		(10,754)		(12,034)
		62%		74%		70%

For the year ended 31 July 2008

25 Local Government Pension Scheme (LGPS) - continued

The expected rate of return on assets is based upon market expectations, at the beginning of the period, for investment returns over the entire life of the related obligation.

Mortality and life expectancy assumptions	**At 31-Jul-08**	At 31-Jul-07
Post retirement mortality assumptions:		
Active members	**PA 92mc YOB Tables**	PA 92mc + 1 year (YOB 1965)
Current Pensioners	**PA92mc YOB Tables (if retired in normal health)**	PA92mc + 2 years (YOB 1935)
Life expectancy:		
Male (Female) current pensioner aged 65	**23.1 (25.9) years**	22.2 (25.0) years
Male (Female) future pensioner aged 65	**22.0 (24.8) years**	19.7 (22.6) years

	At 31-Jul-08 £'000	At 31-Jul-07 £'000
Analysis of amount charged to income and expenditure account		
Current service charge	**(633)**	(774)
Past service gain (cost)	**(316)**	(20)
Curtailment (loss)	**(7)**	(51)
Total operating charge	**(956)**	(845)
Analysis of net return on pension scheme		
Expected return on pension scheme assets	**2,097**	1,714
Interest on pension liabilities	**(2,420)**	(2,051)
Net return	**(323)**	(337)
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**(7,456)**	1,307
Changes in assumptions underlying the present value of scheme liabilities	**0**	(106)
Actuarial (loss)/gain recognised in the STRGL	**(7,456)**	1,201
Movements in (deficit) during the year		
(Deficit) in scheme at 1 August 2007	**(10,721)**	(12,034)
Movements in the year:		
Current service charge	**(633)**	(774)
Contributions	**1,489**	1,294
Past service gain (cost)/Curtailment/Settlement gain	**(323)**	(71)
Net interest/return on assets	**(323)**	(337)
Actuarial (loss)/gain	**(7,456)**	1,201
(Deficit) in scheme at 31 July 2008	**(17,967)**	(10,721)
Change in benefit obligation during the period to 31 July		
At beginning of year	**42,142**	40,536
Current service cost	**633**	774
Interest on pension liabilities	**2,420**	2,051
Member contributions	**210**	226
Past service cost	**316**	20
Actuarial (gains)/losses on liabilities	**2,757**	105
Curtailments	**7**	51
Benefits paid	**(1,693)**	(1,621)
At end of year	**46,792**	42,142
Analysis of movement in the market value of the scheme assets		
At beginning of year	**31,388**	28,473
Expected return on plan assets	**2,097**	1,712
Actuarial gains/(losses) on assets	**(4,699)**	1,304
Employer contributions	**1,489**	1,294
Member contributions	**210**	226
Benefits/transfers paid	**(1,693)**	(1,621)
At end of year	**28,792**	31,388

Notes to the Financial Statements

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25 Local Government Pension Scheme (LGPS) - continued

History of Experience Gains and Losses

	2007-08	2006-07	2005-06	2004-05	2003-04
	£000	£000	£000	£'000	£'000
Difference between the expected and actual return on scheme assets:					
Amount	**7,456**	1,201	1,959	3,294	469
Percentage of scheme assets	**26.2%**	3.8%	6.9%	13.2%	2.1%
Experience gains arising on the scheme liabilities:					
Amount	**0**	0	869	484	0
Percentage of scheme liabilities	**0.0%**	0.0%	2.1%	1.3%	0.0%
Total amount recognised in the Statement of total recognised gains and losses:					
Amount	**7,456**	1,201	(73)	426	469
Percentage of the present value of scheme liabilities	**2.8%**	2.8%	0.0%	1.1%	1.3%

In the 2008-09 year, the University estimates that it will pay £567,000 in future service contributions and £1.1m in respect of the past service deficit.

University of Essex Pension Scheme (UEPS)

The UEPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2007-08 were 18% for the University (2006-07 18%) and 6% for employees. In addition, the University made annual contributions of £173,340 in each of the years from 1 August 2005 to 31 July 2008 towards the scheme deficiency.

The pensions cost is assessed every three years in accordance with the advice of a qualified actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Last actuarial valuation date	31 July 2007
Actuarial method	Projected Unit
Price inflation	3.3% per annum
Investment return pre retirement	6.25% per annum
Investment return post retirement	5.25% per annum
Pension increases	3.3% per annum
Salary scale increases	4.8% per annum
Market value of assets at 1 August 2007	£8.285m

Proportion of members' accrued benefits covered by the actuarial value of assets 77%.

Actuarial Assumptions

The full actuarial valuation carried out at 31 July 2007 has been updated to 31 July 2008 by a qualified independent actuary.
The major assumptions used by the actuary were:

	At 31-Jul-08 %	At 31-Jul-07 %
Financial Assumptions		
Rate of increase in salaries	**5.30**	4.70
Rate of increase in pension payments	**3.80**	3.20
Expected return on assets	**6.90**	6.50
Discount rate for liabilities	**6.10**	5.80
Inflation assumptions	**3.80**	3.20
Split of assets between investment categories		
Equities	**73.50**	86.84
Corporate bonds	**7.62**	4.39
Government bonds	**9.72**	6.70
Cash	**9.16**	2.07

For the year ended 31 July 2008

25 University of Essex Pension Scheme (UEPS) - continued

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31-Jul-08 %	**Whole fund value at 31-Jul-08 £'000**	Long-term rate of return expected at 31-Jul-07 %	Whole fund value at 31-Jul-07 £'000	Long-term rate of return expected at 31-Jul-06 %	Whole fund value at 31-Jul-06 £'000
Equities	**7.5**	**6,480**	7.5	7,117	**6.8**	6,580
Corporate bonds	**6.1**	**672**	5.8	360	**5.1**	63
Government bonds	**4.8**	**857**	4.9	549	**4.3**	96
Cash	**5.0**	**807**	5.8	170	**4.5**	21
Total market value of assets		**8,816**		8,196		6,760
Present value of scheme liabilities		**(12,426)**		(9,858)		(8,983)
(Deficit) in the scheme		**(3,610)**		(1,662)		(2,223)
		71%		83%		75%

The expected rate of return on assets is based upon the long-term expectation for each asset class at the beginning of the period.

Mortality and life expectancy assumptions

FRS disclosures up to July 2006 used the standard PXA92 series tables as used in the formal actuarial valuation in 2004. The trustees agreed that the formal funding valuation as at 31 July 2007 should be based on the standard mortality table PXA92 based on each member's actual year of birth and allowing for future improvements in mortality in line with the medium cohort projections. The University agreed to adopt these tables to calculate the liabilities for the FRS 17 disclosure as at 31 July 2008

	At	At
Life expectancy assumptions	**31-Jul-08**	31-Jul-08
Non-pensioners	**PXA92 (YOB) mc**	PXA92 (YOB) mc
Pensioners	**PXA92 (YOB) mc**	PXA92 (YOB) mc

	At 31-Jul-08 £'000	At 31-Jul-07 £'000
Analysis of amount charged to income and expenditure account		
Current service charge	**(765)**	(854)
Past service cost	**0**	0
Total operating charge	**(765)**	(854)
Analysis of net return on pension scheme		
Expected return on pension scheme assets	**622**	479
Interest on pension liabilities	**(593)**	(483)
Net return	**29**	(4)
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**(686)**	151
Experience gains and losses arising on the scheme liabilities	**(1,228)**	596
Actuarial (loss)/gain recognised in the STRGL	**(1,914)**	747
Movements in surplus/(deficit) during the year		
(Deficit) in scheme at 1 August 2007	**(1,662)**	(2,223)
Movements in the year:		
Current service charge	**(765)**	(854)
Contributions	**809**	845
Other outgoings	**(107)**	(173)
Net interest/return on assets	**29**	(4)
Actuarial (losses)/gains	**(1,914)**	747
(Deficit) in scheme at 31 July 2008	**(3,610)**	(1,662)

Notes to the Financial Statements

For the year ended 31 July 2008

25 University of Essex Pension Scheme (continued)

	At 31-Jul-08 £'000	At 31-Jul-07 £'000
Change in benefit obligation during the period to 31 July		
At beginning of year	**9,858**	8,983
Current service cost	**765**	854
Interest on pension liabilities	**593**	483
Member contributions	**211**	220
Actuarial (gains)/losses on liabilities	**1,228**	(596)
Benefits paid	**(229)**	**(86)**
At end of year	**12,426**	9,858
Analysis of movement in the market value of the scheme assets		
At beginning of year	**8,196**	6,760
Expected return on plan assets	**622**	479
Actuarial (losses)/gains on assets	**(686)**	151
Employer contributions	**809**	845
Member contributions	**211**	220
Benefits/transfers paid	**(336)**	(259)
At end of year	**8,816**	8,196

History of Experience Gains and Losses

	2007-08 £'000	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000
Difference between the expected and actual return on scheme assets:					
Amount	**(686)**	151	238	676	72
Percentage of scheme assets	**-7.80%**	1.8%	3.5%	13.0%	2.2%
Experience gains arising on the scheme liabilities:					
Amount	**(1,228)**	353	0	(220)	(71)
Percentage of scheme liabilities	**-9.90%**	3.6%	0.0%	3.1%	-1.7%
Total amount recognised in the Statement of total recognised gains and losses:					
Amount	**(1,914)**	747	(159)	(938)	115
Percentage of the present value of scheme liabilities	**-15.4%**	7.6%	1.8%	13.1%	2.7%

In the 2008-09 year, the University estimates that it will pay £847,000 in future service contributions and £320,000 in respect of the past service deficit.

26 Subsidiary Undertakings and Joint Ventures

The University has the following wholly owned subsidiary companies:

Company	Activity	At 31 July 2008 £1 Shares	At 31 July 2007 £1 Shares
Wivenhoe Technology Ltd	Acquisition, protection and licensing of intellectual property from the University	2	2
W P Management Ltd	Management of commercial activities at the University	30,002	2
University of Essex Research Park Holdings Ltd	Holding land on behalf of the University for development as a Research Park	12,190,682	12,190,682
University of Essex Research Park Ltd	Development and marketing of a Research Park	50,002	50,002
University of Essex Environmental Facilities Ltd	Dormant throughout the year	100,000	100,000
East 15 Acting School Ltd	Dormant throughout the year	2	2
University of Essex (Elmstead Road) Ltd	Dormant throughout the year	2	2
Universal Accommodation Group Ltd	Development of student accommodation	1	1

For the year ended 31 July 2008

26 Subsidiary Undertakings and Joint Ventures - continued

Trading results of wholly owned subsidiaries:	**2007-08 £'000**	2006-07 £'000
Wivenhoe Technology Ltd	**158**	136
W P Management Ltd	**3**	121
University of Essex Research Park Holdings Ltd	**(1)**	**(5)**
Universal Accommodation Group Ltd	**60**	**(162)**
University of Essex Research Park Ltd	**0**	0
	220	90

These results have been included in the consolidated financial statements. All subsidiaries have a year end date of 31 July.

Wivenhoe Technology Ltd owned 500 Class A £1 ordinary shares in Nesstar Ltd, a company registered in England and Wales. This represented 50% of the company's issued share capital. The company was involved in the development of data software, but ceased to trade in April 2007. It was struck off the register at Companies House on 22nd January 2008.

A joint venture agreement has been signed with Carisbrooke Alliance Ltd, setting up the Carisbrooke-Essex Partnership. The aim of this venture is to establish a research park on campus. The University has transferred 40 acres of land into a wholly-owned subsidiary company, University of Essex Research Park Holdings Ltd, in exchange for £12,190,680 of redeemable preference shares.

University Campus Suffolk Ltd has no share capital and is a company limited by guarantee, owned equally by the University of Essex and the University of East Anglia, to promote the establishment of a university campus in Suffolk. For the 2007-08 year, it recorded a loss of £619k after taxation (2006-07 £nil). On 9 September 2008, UCS Ltd was gifted land with an estimated value of £9.3m by Ipswich Borough Council to aid the development of Phase II of the capital programme. In the event that any part of the site remains undeveloped after 31 March 2013, the Council has the option to repurchase it for £1.

During the year, UCS Ltd purchased goods and services to the value of £323k from the University of which £154k was outstanding at 31 July 2008. UCS Ltd provided services to the University to the value of £2k, with nil outstanding at 31 July 2008

The Carisbrooke-Essex Partnership, Nesstar Ltd and University Campus Suffolk Ltd have been accounted for as joint ventures in accordance with FRS 9. The level of deficit from each of the joint ventures included within the consolidated financial statements was as follows:

Joint Venture	Year-end date	**2007-08 £'000**	2006-07 £'000
Nesstar Ltd	30 June	**0**	383
Carisbrooke-Essex Partnership	31 July	**(43)**	(274)
University Campus Suffolk Ltd	31 July	**(310)**	0
		(353)	(274)

The University's 50% share of the gross assets and liabilities of its joint ventures was:

	UCS Ltd £'000	**2007-08** Carisbrooke-Essex £'000	**Total £'000**	2006-07 Total £'000
Fixed Assets	24,075	0	**24,075**	6,480
Current Assets	5,109	88	**5,197**	3,618
Total Assets	29,184	88	**29,272**	10,098
Current Liabilities	(4,267)	(7)	**(4,274)**	(9,966)
Liabilities - amounts falling due after more than one year	(4,000)	0	**(4,000)**	(392)
Total Liabilities	(8,267)	(7)	**(8,274)**	(10,358)

Notes to the Financial Statements

For the year ended 31 July 2008

27 Related Party Transactions

The related parties of the University are the wholly and partially owned subsidiary undertakings (listed in note 30 of these Financial Statements), the University of Essex Students' Union and the members of the Council.

In the preparation of these Financial Statements, the University has taken advantage of the exemptions contained within Financial Reporting Standard 8 relating to transactions and balances eliminated on consolidation.

All transactions and balances with the subsidiary undertakings have been eliminated on consolidation and therefore no disclosure is given.

Due to the level and nature of transactions between the organisations, the University of Essex Students' Union is considered to be a related party. In the year to 31 July 2008 the University paid the Union a grant of £525,959 (2006-07: £627,290), and provided accommodation free of rent. The Union's income and expenditure account shows the following:

	2007-08	2006-07
	£'000	£'000
Income	**1,278**	1,119
Expenditure	**(1,260)**	(1,143)
Operating (deficit)/surplus before and after transfers from/(to) reserves	**18**	(24)

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. Given that the University Council includes members drawn from public and private sector organisations, some transactions take place with organisations in which a member of Council may have an interest. However, these transactions occur at the operational level where they are instigated by members of staff and approved by senior management under delegated authority. There is no direct benefit to members of Council.

Members of Council (and its sub-committees) are required to declare all outside interests. When an item arises in which a member has an interest, it must be declared and the member concerned may not take part in that debate or any related decisions.

28 Contingent Liabilities

On 23 July 2008, the University signed draft Heads of Terms with Hollybrook Limited for the design and construction of student residences in Southend. In the event that the project does not proceed to completion, the University will be liable to pay the developer's design and planning costs up to an amount of £350,000.

On 14 July 2008, the University provided a guarantee to Barclays Bank PLC on behalf of University Campus Suffolk (UCS). The guarantee supports a loan of £10m by the bank to UCS in respect of building works, and liability is shared equally between the University and the University of East Anglia.

29 Post Balance Sheet Events

Following negotiations to reach a termination arrangement, the University ended its partnership with Insearch Ltd on 31 October 2008. The termination payment will be paid over a number of years.

The University has entered into a bank loan of £100m, subject to gaining HEFCE approval. The loan will finance the residences in Southend together and a number of other capital schemes. At the same time, and as part of the deal, the University will borrow a further £22m to enable other existing loans to be repaid.

Notes to the Financial Statements

For the year ended 31 July 2008

30 Agency Arrangements

	University 2007-08 £'000	University 2006-07 £'000
Hardship Funds		
Balance brought forward at 1 August	**80**	42
Funding council grants received	**280**	346
Interest earned	**10**	10
	370	398
Disbursed to students	**(377)**	(318)
Balance (overspent)/unspent at 31 July	**(7)**	80
NHS Bursaries		
Payments received from NHS organisations	**145**	75
Disbursed to students	**(145)**	(75)
Balance unspent at 31 July	**0**	0

These funds are available solely for students; the University acts only as the paying agent. The income and the related disbursements are therefore excluded from the Income & Expenditure Account.

	2007-08 £'000	2006-07 £'000
HEFCE Teaching Grant		
Payments received from HEFCE	**6,360**	5,663
Payments made to partner institutions	**(6,360)**	(5,663)
Balance unspent at 31 July	**0**	0
HEFCE Research Grant		
Payments received from HEFCE	**141**	65
Payments made to partner institutions	**(141)**	(65)
Balance unspent at 31 July	**0**	0
Strategic Health Authority		
Payments received from East of England SHA	**1,396**	0
Payments made to partner institution	**(1,396)**	0
Balance unspent at 31 July	**0**	0

These funds are received by the University in respect of its partner institutions.The income and the related payments are therefore excluded from the Income & Expenditure Account.

The University has partnership arrangements for the delivery of Higher Education programmes with South East Essex College, Colchester Institute, Writtle College, The Portman and Tavistock NHS Foundation Trust and Kaplan Ltd.

31 EBITDA

Earnings before interest, taxation and depreciation (EBITDA) is a measure of cash operating surplus. The reconciliation from the surplus on continuing operations and EBITDA is:

	2007-08 £'000	2006-07 £'000
Surplus/(Deficit) on continuing operations after depreciation but before joint ventures:	**1,974**	(861)
add back depreciation	**4,406**	3,921
less release of deferred capital grants (note 18)	**(1,908)**	(1,684)
add back interest payable (note 9)	**2,188**	2,310
less general interest income (note 5)	**(1,096)**	(1,142)
add back FRS 17 credit /(Charges)	**(176)**	74
add back release of provision for part time pensions	**(577)**	0
add back exceptional non-recurrent items:		
Impairment to Carisbrooke-Essex loan	**750**	0
Students' Union capital grant and loan write off	**0**	1,041
Staff restructuring costs	**106**	654
EBITDA	**5,667**	4,313

Five-Year Summary of Financial Position (unaudited)

For the year ended 31 July

	2003-04 £'000	2004-05 £'000	2005-06 £'000	2006-07 £'000 As restated	**2007-08 £'000**
Income and Expenditure Account					
Income					
Funding council grants	25,772	28,076	29,996	33,741	**33,622**
Tuition fees and educational contracts	25,574	26,964	26,028	30,303	**35,329**
Research grants and contracts	12,631	14,782	15,203	14,268	**15,744**
Other income	18,386	18,388	20,893	22,107	**35,278**
Endowment and investment income	913	899	1,153	1,247	**1,205**
Total	83,276	89,109	93,273	101,666	**121,178**
Less share of joint venture income	(408)	(357)	(899)	(971)	**(11,976)**
Total income	82,868	88,752	92,374	100,695	**109,202**
Expenditure					
Staff costs	50,643	54,625	58,147	62,736	**67,392**
Other operating expenses	25,313	27,843	25,458	32,248	**32,948**
Depreciation	2,516	2,674	3,030	3,921	**4,406**
Interest paid	2,971	2,667	2,480	2,651	**2,482**
Total expenditure	81,443	87,809	89,115	101,556	**107,228**
Surplus after depreciation of assets at cost	1,425	943	3,259	(861)	**1,974**
Share of operating loss in joint venture	(102)	(152)	(15)	(11)	**(353)**
Profit on disposal of fixed assets				6,151	
Surplus for the year	1,323	791	3,244	5,279	**1,621**
Balance Sheet as at 31 July					
Total fixed assets	91,554	96,814	117,276	138,976	**166,680**
Endowment assets	9,313	10,952	11,970	2,602	**2,670**
Current assets	15,478	17,948	22,547	21,307	**18,079**
Creditors: amounts falling due within one year	(10,507)	(14,360)	(18,536)	(17,118)	**(18,049)**
Total assets less current liabilities	105,838	111,354	133,257	145,767	**169,380**
Creditors: amounts falling due after more than one year	(43,947)	(42,652)	(40,622)	(38,592)	**(36,562)**
Provisions for liabilities	(584)	(1,212)	(805)	(1,217)	**(439)**
Pension liability	(13,741)	(14,567)	(14,257)	(12,383)	**(21,577)**
Net assets	47,566	52,923	77,573	93,575	**110,802**
Deferred capital grants	19,628	23,028	43,638	47,744	**51,799**
Endowments	9,313	10,952	11,970	2,602	**2,670**
Reserves	18,625	18,943	21,965	43,229	**56,333**
Total funds	47,566	52,923	77,573	93,575	**110,802**
Financial Statistics					
Surplus as a percentage of turnover	1.6%	0.9%	3.6%	5.2%	**1.5%**
Margin on research grants and contracts (income less direct expenditure/income)	18.0%	20.9%	24.6%	20.9%	**22.0%**
Margin on residences, catering & conferences (income less direct expenditure/income)	4.9%	10.0%	13.6%	13.8%	**14.6%**
Current ratio (current assets/current liabilities)	1.5	1.2	1.2	1.2	**1.0**
Debt as percentage of total turnover	55.5%	50.1%	45.7%	37.7%	**31.8%**
Liquidity days (number of days of average expenditure excluding depreciation supported by cash balances)	37	32	64	54	**39**
Debtor days (number of days income excluding Funding Council grant represented by debtors due within one year)	42	52	36	32	**33**

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