

FINANCIAL STATEMENTS

2006/07

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OFFICERS AND STAFF PRINCIPALLY CONCERNED WITH FINANCIAL MATTERS

Membership of Council as at 28th November 2007

Dr M Acar
J Blackwell
Sir Bryan Carsberg ^{3, 4, 5}
P Coates
Dr S Dann
V Dhaliwal
G Edila
Sir John Gains ^{4, 5}
M A Gibson

P Glover ¹
P J K Haslehurst ³
N Honey ^{2, 3, 5}
Sir John Jennings
Professor N Halliwell ^{3, 5}
J Mutton ^{2, 3}
Professor R Parker
Professor S Pearce ^{3, 4, 5}
Professor R Parry-Jones

G Picken ¹
S Proffitt ¹
Dr F Rowland
J A M Strong ³
Professor R Thomson
Professor Y Vardaxoglou
Professor P Warwick ⁵
Dr C S Woodruff
A A Woods ^{2, 3, 4, 5}

Membership of Committees as at 28th November 2007

Audit Committee ¹
Treasurer's Committee ²

Resources & Planning Committee ³

Remuneration Committee ⁴
Nominating Committee ⁵

Officers and Staff in Post as at 28th November 2007

Chair of Council	Sir Bryan Carsberg, MSc(Econ), LLD(Hon), ScD(Hon), DUniv(Hon), DLitt(Hon), MA(Econ)(Hon), FCA, HonFIA Director, Inmarsat plc Director, RM plc Director, Novae Group plc
University Treasurer and Chair of Treasurer's Committee	Alan Woods, DL, DUniv (Hon), FCA Deputy Chairman, Derbyshire Building Society A Deputy Lieutenant for the County of Derbyshire
Chair of Audit Committee	Simon Proffitt, FCA Vice President of AstraZeneca R & D Charnwood
Vice-Chancellor and Designated Officeholder	Professor Shirley Pearce, CBE, BA Oxon, MPhil, PhD
Acting Director of Finance	Paula Powditch, BA , ACA

Providers of Financial Services

External Auditors	Deloitte & Touche LLP, Nottingham
Internal Auditors	KPMG LLP, Nottingham
Bankers	Barclays Bank plc, Birmingham Lloyds Bank Ltd, Birmingham
Insurers	Universities Mutual Association Ltd, London

Treasurer's Report and Financial Review

I am pleased to present the University's financial statements for the year ended 31 July 2007. The statements, which are consolidated with the results of University subsidiary companies comply with the *Statement of Recommended Practice on Accounting for Further & Higher Education* and the *Accounts' Direction of the Higher Education Funding Council for England*. They have been audited by Deloitte & Touche LLP, Registered Auditors, whose report is unqualified.

Results for the year

An overall surplus for the year of £3.9m was achieved which is after exceptional items of £2.7m giving an operating surplus of £6.6m and is in excess of the 3% target set by Council.

Total income rose by 6.6% to £177m largely as a result of the increase in the level of student fees. This is the first year of variable student fees which net of bursaries amounts to £4.4m. This enabled investment in additional staff and strategic operating costs both for the short and medium term benefit of the University .

Exceptional items

These primarily relate to a Private Finance Initiative (PFI) with UPPI for a new build of 1,300 student bedrooms on the University campus. A lease for 35 years was granted and a payment was made by the University of £2.797m. The accounting treatment of the new build is off balance sheet which means that these halls will not be recognised as a fixed asset on the University's financial statements. Construction of the halls commenced during 06/07 and completion is due September 2009.

Cash flow and funding

Cash inflow from operating activities was £17.4m (2005-06 £19.0m) prior to the impact of continuing investment in University infrastructure and facilities. At the year end the University had net funds of £678k compared with net debt last year of £1.17m. To better manage long term funding, the University has secured loan facilities of which £35m has been drawn and has a revolving credit facility of £40m available. Approximately 50% of the University's loan is on fixed rate terms providing protection against adverse movements in interest rates. The balance of the loan is more than matched by deposits which are also on variable interest rates.

A total of £27m has been invested in capital projects in the year under review of which £14.2m was funded from specific funding council grants and other grants. The University has a demanding capital programme and serious consideration is being applied to the funding thereof in order not to create unduly onerous obligations.

Capital Projects

Projects during the year included a £3.6m extension on the Richard Morris building, which was completed in September 2007, and £2.2m on new facilities to house health and exercise bio-sciences on the grounds of the old sports hall. This marks the first step in the exciting development project to transform the East Park part of campus.

In addition £7m was incurred in the purchase of the former Motorola building currently being refurbished to house a state-of-the-art Sports Technology Institute, in partnership with East Midlands Development Agency . The Institute will develop leading-edge technology to assist the country's elite athletes in their preparation for the London 2012 Olympic and Paralympic Games, as well as significantly enhance research, innovation and enterprise in the sport and leisure sector throughout the region, and beyond.

The William Morris student accommodation hall has been refurbished and newly extended under another PFI initiative.

Anticipated spend on capital projects for 2007-08 amounts to £36m which includes completion of the health and exercise bio-sciences lab, the Sports Park to house sporting governing bodies, the West Park multi story car park, the Sports Technology Institute and some freehold land.

Pensions

These financial statements comply with the accounting standard on retirement benefits, FRS 17, for the second year. This standard requires that employers disclose their share of assets and liabilities for each scheme. FRS 17 disclosures apply only to the University's Local Government Pension Scheme (LGPS) as it is possible to identify our individual share only for this scheme and not the other schemes to which University staff belong.

The deficit from the LGPS at 31 July 2007 was £8.765m (2006 £17.511m) and is reflected on the University's balance sheet. This deficit is calculated by reference to assumptions stated in note 31 at the foot of page 32. The assumptions used at year end were those taken from indices at that date which happened to produce a more favorable view of the deficit. There has been some turbulence in the money markets since the year end and some of those indices would now

show the deficit to be significantly higher. The deficit is therefore vulnerable to short term movements in key assumption indices.

It is clear with improved life expectancy and lower future investment returns, the funding requirements are likely to be a significant future burden on the University's finances. In respect of the USS scheme, whilst contribution levels have remained consistent over a long period of time the same pressures apply to this scheme and future increases are expected but are not thought to be significant.

Prospects

The University's operating plans show that surpluses are achievable, however, the challenges to ensure the delivery thereof are not inconsiderable and currently the plans do not meet the Council's 3% objective. We have recruited well in 2007/08 and have put in place our "Strategy for 2016" which is clear about our aims in research, new subject areas and enterprise. Home fee income will continue to grow as a result of variable fees with the final full year in 2008/09 and some smaller but significant increases in the following two years.

Two recent developments that demonstrate the strength of our enterprise stream are :

The successful bid for the National Energy Technologies Institute which is to be operated on this University's campus. The institute is supported by a Midland's consortium of three universities (Birmingham, Loughborough and Nottingham) supported by the East and West Midlands Development Agencies.

Work on the developing Science and Enterprise Park is well underway including a process to seek a suitable partner(s) to assist in the initiative.

Conclusion

A strong balance sheet puts the University in an advantageous position but there is a great need to ensure that an appropriate annual surplus is continuously achieved if the university is to meet the challenges of the future and its visions for the next ten years as outlined in the University's new strategic plan.

28 November 2007

**Alan A Woods
University Treasurer**

STATEMENT OF CORPORATE GOVERNANCE

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the governance procedures applied by the University Council.

The University is committed to exhibiting best practice in all aspects of Corporate Governance. This statement describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance July 2003.

Throughout the year ended 31 July 2007, the University has been in compliance with all the Code provisions set out in section 1 of the Combined Code on Corporate Governance insofar as they relate to universities. During 2005/06 the Council undertook a detailed review of effectiveness of Council which included compliance with the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales, a revised version of which was issued by the Committee of University Chairmen in 2004. An action plan was drawn up to ensure compliance with the Code and this has now been fully implemented.

Summary of the University's Structure of Corporate Governance

The **Council**, the governing body of the University, comprises independent, academic, non-academic and student members appointed under the Statutes of the University, the majority of whom are non-executive. The role of Chair of the Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from the Executive Officers on the day to day operations. Certain matters are specifically reserved for Council under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Council meets at least three times a year, and it is advised by the Senate on academic issues.

Both Council and Senate conduct their routine business through committees, some of which are jointly composed. So far as financial management is concerned, the **Resources and Planning Joint Committee** has responsibility for the integration of academic, financial and physical planning and the allocation of resources to departments and sections.

Monitoring of the overall financial situation and treasury management are the responsibility of the **Treasurer's Committee**, which is chaired by a non-executive member of Council and on which there is a majority of independent members. The Resources and Planning Committee monitors the performance of faculties and business units regularly.

The External Auditors address their report on the Financial Statements to Council through the **Treasurer's Committee**.

The **Audit Committee** comprises independent members of Council, who are not otherwise involved in the management of the University, and other independent persons appointed by Council. Both Internal and External Auditors report to the Audit Committee on a regular basis. The Committee considers the detailed reports together with the recommendations on the systems and controls in operation. The Committee takes account of guidance issued by the HEFCE through its Code of Practice on Accountability and Audit. The Committee appoints the Internal auditors whilst Council appoints the External Auditors. Both Internal and External auditors have direct access to the Chair of Council, the Chair of Audit Committee and the Vice-Chancellor at any time.

The **Nominating Committee** of Council considers nominations for vacancies in Council membership under the relevant category.

The **Remuneration Committee** of Council determines the remuneration of professorial and senior administrative staff.

Internal Control

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

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

The system of internal control is based on an ongoing review process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2007 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

The principal features of the University's internal control structure are:

- A comprehensive strategic and operational planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets with clear allocation of responsibilities for achievement of strategic and operational plans. In addition the Council has adopted clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving substantial capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council. Comprehensive Financial Regulations, detailing financial controls and procedures, have been approved by the Council. Regular reviews of academic performance and financial results involving variance reporting and updates of forecast out-turns take place.
- The Executive Management Group is tasked with the identification, evaluation and management of risk. A risk management strategy and policy document and an organisation-wide risk register have been established. It has been agreed where the principal responsibility rests for risks identified and a control and reporting strategy which now involves annual reporting back to the Executive Management Group has been implemented for each of the significant risks. Integration with the planning process was introduced during the year.
- The Audit Committee monitors the effectiveness of control, governance, the management of risk and value for money of the University's activities. It receives regular reports from the Internal Auditors, and where relevant, the External Auditors. The internal audit approach now reflects the increased emphasis on risk management. Periodic reports concerning internal control are received by Council from the Audit Committee. Reports on the progress on key projects and regular reports from senior management on the steps they are taking to manage risks in their area of responsibility are received by the Council and its principal committees.
- The Performance Monitoring Group and the Research Performance Monitoring Group monitor the performance of all sections of the University in the light of the University's targets set in the Strategic and Operational Plan. Both groups report to the Resources and Planning Committee.

The University Council, through the Audit Committee, has reviewed the effectiveness of the system of internal control of the University and its subsidiary companies for the period covered by these financial statements. Any system of internal control can, however, only provide reasonable but not absolute assurance against material financial misstatement or loss.

Going Concern

The University Council is satisfied that the University and its subsidiary companies have adequate resources to continue in operation for the foreseeable future; for this reason the going concern basis continues to be adopted in the preparation of financial statements.

STATEMENT OF THE RESPONSIBILITIES OF THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

In accordance with the Royal Charter, the Council of the University is ultimately 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 University Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and its subsidiary companies and enable it to ensure that the financial statements are prepared in accordance with the relevant parts of the Royal Charter, company law, the Statement of Recommended Practice on Accounting for Further and Higher Education and other Accounting Standards. In addition, within the terms and conditions of the Financial Memorandum between the Higher Education Funding Council for England and the University, the latter, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and its subsidiary companies and of the surplus or deficit and cash flows of the University and its subsidiary companies for that year.

In preparing the financial statements, the University 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
- the going concern basis is used unless it is inappropriate to presume that the University will continue in operation.

The University Council has taken reasonable steps to: -

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- ensure that income from the Training and Development Agency for Schools is applied for the purpose for which it has been received and in accordance with the funding agreement with the Agency
- ensure that income from the Learning and Skills Council is applied for the purpose for which it has been received and in accordance with the funding agreement with the Council
- 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 companies and prevent and detect fraud, and
- secure the economical, efficient and effective management of the resources and expenditure of the University and its subsidiary companies.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

We have audited the financial statements of Loughborough University for the year ended 31 July 2007 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the statement of consolidated total recognised gains and losses, the consolidated balance sheet, the University balance sheet, the reconciliation of consolidated operating surplus to net cash flow from operating activities, the consolidated cash flow statement, reconciliation of net cash flow to movement in net funds/(debt), and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated July 2006. Our audit work has been undertaken so that we might state to the Council 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 Members of the Council and auditors

As described in the Responsibilities of the Council, the Members of the Council are responsible for the preparation of the financial statements in accordance with the University's statute, 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, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by Loughborough University 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 Treasurer's Report is not consistent with the financial statements, if the University 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 Treasurer's Report, 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 University Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

- (a) the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2007 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 the Higher Education Funding Council for England, and the Training and Development Agency, grants and income for specific purposes and from other restricted funds administered by the University 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's statutes and, where appropriate, with the Financial Memorandum, dated July 2006 with the Higher Education Funding Council for England.

An audit does not provide assurance on the maintenance and integrity of the web -site, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area. Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

November 2007

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham UK

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain land and buildings acquired from Loughborough College of Art and Design, and in accordance with both the Statement of Recommended Practice (SORP) in Accounting for Further and Higher Education 2003 and other applicable Accounting Standards.

2 Basis of Consolidation

The University and its subsidiaries prepare accounts to 31 July. The consolidated financial statements combine the financial statements of the University and all its subsidiary undertakings for the financial year to 31 July 2007. The individual subsidiary companies' financial statements have been prepared in accordance with the Companies Act and other relevant Accounting Standards.

The consolidated financial statements do not include the accounts of Loughborough Students Union, as it is a separate body over which the University does not have the power to exercise and nor does it exercise dominant influence. Expenditure, which is included in the Consolidated Income and Expenditure Account of the University, relates to the University's contribution to Union activities.

3 Recognition of Income

Income from Specific Endowments, Donations, Research Grants and Contracts is included to the extent of recurrent expenditure incurred and depreciation charged during the year, together with any related contributions towards overhead costs. Unspent endowments are shown as Endowment Reserves on the balance sheet, whilst unspent donations, where terms require are classed as deferred income. All income from other sources is credited to the Income and Expenditure Account on a receivable basis.

4 Merger with Loughborough College of Art and Design

Loughborough College of Art and Design merged with Loughborough University on 1 August 1998. The merger was accounted for by the 'acquisition method of accounting' in order to comply with the requirements of the Financial Reporting Standard (FRS) 6, "Acquisitions and Mergers". Fair values are attributed to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by the University for the net value of the assets acquired is included in the Consolidated Balance Sheet as a deduction from Tangible and Intangible Assets. The fair value of the benefit is released to the Income and Expenditure Account over the periods in which the non-monetary assets are recovered, whether through depreciation or disposals. The release is aligned with the corresponding depreciation charge relating to the assets.

5 Pension Schemes

The University participates in the Universities Superannuation Scheme (USS), the Local Government Superannuation Scheme (LGPS) and the Teachers' Pensions (TP).

The USS and the TP are defined benefit schemes which are externally funded and contracted out of the State Second Pension. The institution is unable to identify its share of the underlying assets and liabilities of these schemes on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for these two schemes as if they were defined contributions schemes. As a result the amount charged to the Income and Expenditure Account represents the contributions payable to the schemes during the year.

The LGPS is a defined benefit scheme which is externally funded and contracted out of the State Second Pension Scheme. The institution is able to identify its share of the assets and liabilities of this scheme. The difference between the fair value of the assets held in the University's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the University's balance sheet as a pension scheme asset or liability as appropriate. The carrying value of any resulting pension scheme asset is restricted to the extent that the University is able to recover the surplus through reduced contributions in the future or through refunds from the scheme.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the Income and Expenditure Account or the statement of total recognised gains and losses in accordance with FRS17 "Retirement benefits".

The funds of the USS and LGPS are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the Schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the Schemes, and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. The TP is valued every five years by the Government Actuary. Contributions are paid at the rate specified by the Government Actuary. It is an unfunded Scheme and contributions are made to the Exchequer.

The pension charge for the period includes an amount in respect of enhanced pension entitlements relating to specific University staff who have taken early retirement in prior years. The calculation of the cost of early retirement provisions charged to the Income and Expenditure Account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns in excess of price inflation.

A provision is made for liabilities and charges representing the extent to which the capital cost of enhanced pension entitlements charged exceeds actual payments made. The provision will be released against the cost to the University of enhanced pension entitlements over the life of each relevant employee.

6 Land and Buildings

Land and buildings are stated at cost or, in the case of buildings acquired as a result of the merger with Loughborough College of Art and Design, at valuation: the basis of valuation is depreciated replacement cost and the valuation on 31 July 1998 was performed by GVA Grimley, International Property Advisors. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their estimated useful lives, which range between ten and sixty years depending on the method of construction used. Leasehold land and buildings are amortised over the life of the lease up to a maximum of fifty years. Improvements to buildings and long term maintenance projects are capitalised, where they are seen to increase the value or effective life of a building or building related plant and the value of the improvements is in excess of £50,000. Depreciation is charged from the year of completion and is calculated to write the cost off over the remaining life of the improved building or building related plant.

Where building projects are financed with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the Income and Expenditure Account over the expected useful, economic life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

7 Furniture and Equipment

Equipment, including computers and associated software, where the cost is less than £20,000 per individual item or group of related items, is written off in the year of acquisition. All other furniture and equipment is capitalised.

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

Main computer systems	- 7 years
Other main frame computers and telephone equipment	- 5 years
Motor vehicles and other general equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)
Furniture and fixtures	- between 5 and 10 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and released to the Income and Expenditure Account over the expected useful, economic life of the equipment (the period of the grant in respect of specific projects).

The consolidated tangible assets include items purchased by the subsidiary companies that have been capitalised following normal commercial criteria. Depreciation is provided on a straight-line basis on cost over a period of between 3 and 10 years.

8 Investments

Endowment asset investments are included in the Balance Sheet at market value. Fixed asset investments are included at cost. Short-term deposits are included at the lower of cost and net realisable value. Provision is made for any impairment in value of investments whether or not the impairment is expected to be permanent.

The income receivable from short-term investments includes the effects of identified reductions in value in investments (both realised and unrealised).

9 Stocks

Stocks of goods for re-sale are stated at the lower of cost and net realisable value. Stocks of consumable materials held in academic and service departments are excluded.

10 Maintenance of Premises

Actual expenditure on long-term repairs and maintenance of buildings and building-related plant below £50,000 and routine corrective maintenance is charged to the Income and Expenditure Account in the year in which it is incurred. The costs of long-term maintenance projects above £50,000 in value are capitalised with effect from 1 August 1998.

11 Foreign currency transactions

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 year-end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

12 Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand less overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investment.

13 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 Income and Corporation Taxes Act 1988 (ICTA). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Income and Corporation Taxes Act 1988 (ICTA) 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.

All subsidiary companies (with the exception of Loughborough University Development Trust, which is a registered charity) are liable to Corporation tax and Value Added Tax in the same way as any other commercial organisation.

The University's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

14 Operating lease rentals receivable

Operating lease rentals received are credited to the Income and Expenditure Account on an accruals basis over the period of the lease.

15 Leases

The costs of operating leases are charged to the Income and Expenditure Account as they accrue.

Consolidated Income and Expenditure Account

Year Ended 31 July 2007

	Note	2006/07	2005/06
		£'000	£'000
INCOME			
Funding Council Grants	1	59,824	57,930
Academic Fees and Support Grants	2	43,340	35,691
Research Grants and Contracts	3	30,385	31,531
Other Income	4	41,306	39,017
Endowment and Investment Income	5	2,298	1,936
Total Income		<u>177,153</u>	<u>166,105</u>
EXPENDITURE			
Staff Costs	6	99,472	91,741
Depreciation	11	9,982	8,415
Other Operating Expenses		59,322	58,326
Interest Payable	7	1,818	2,217
Total Expenditure	8	<u>170,594</u>	<u>160,699</u>
SURPLUS ON CONTINUING OPERATIONS BEFORE DISPOSAL OF ASSETS AND TAX	9	6,559	5,406
Exceptional item: (loss)/profit on disposal of assets	9	(2,682)	758
SURPLUS ON CONTINUING OPERATIONS AFTER DISPOSAL OF ASSETS BUT BEFORE TAX		<u>3,877</u>	<u>6,164</u>
Tax	10	(42)	(209)
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		<u>3,835</u>	<u>5,955</u>
Transfer from accumulated income within specific endowments		(40)	(47)
Surplus for the year retained within reserves		<u>3,795</u>	<u>5,908</u>

Statement of Consolidated Total Recognised Gains and Losses

Year Ended 31 July 2007

	Note	2006/07 £'000	2005/06 £'000
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		3,795	5,908
Appreciation of Endowment Asset Investments	23	19	45
Prior Year's Endowment Income Expended in Current Year		48	40
Actuarial gain/(loss) in respect of pension scheme	31	<u>10,551</u>	<u>(220)</u>
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		14,413	5,773
Reconciliation			
Opening reserves and endowments		58,183	
Total recognised gains and losses for the year		14,413	
Closing reserves and endowments		<u><u>72,596</u></u>	

Balance Sheets as at 31 July 2007

	Note	2006/07		2005/06	
		Consolidated	University	Consolidated	University
		£'000	£'000	£'000	£'000
Tangible Assets	11	212,314	202,856	195,534	185,709
Benefit Arising from the Acquisition of LCAD	12	(3,163)	(3,163)	(3,297)	(3,297)
Investments	13	269	8,619	277	8,727
Long-term Loans	14	270	298	300	990
Total fixed assets		209,690	208,610	192,814	192,129
Endowment assets	15	2,177	1,501	1,434	1,434
Stocks and Stores in Hand		237	158	200	174
Debtors	16	13,211	13,613	13,407	12,544
Short Term Deposits	17	26,718	26,204	25,076	24,205
Cash at Bank and in Hand		7,331	4,606	8,341	6,449
Total current assets		47,497	44,581	47,024	43,372
Less: Creditors - amounts falling due within one year	18	(52,526)	(50,020)	(49,139)	(46,474)
Net current liabilities		(5,029)	(5,439)	(2,115)	(3,102)
Total assets less current liabilities		206,838	204,672	192,133	190,461
Less: Creditors - amounts falling due after more than one year	19	(33,663)	(33,663)	(34,191)	(34,191)
Less: Provisions for liabilities	21	(2,049)	(1,875)	(2,106)	(2,106)
NET ASSETS excluding pension liability		171,126	169,134	155,836	154,164
Pension liability	31	(8,765)	(8,765)	(17,511)	(17,511)
NET ASSETS including pension liability		162,361	160,369	138,325	136,653
Deferred Capital Grants	22	89,765	89,072	80,142	79,406
Endowments					
Specific	23	2,177	1,501	1,434	1,434
Reserves excluding pension liability	24	79,184	78,561	74,260	73,324
Pension reserve	24, 31	(8,765)	(8,765)	(17,511)	(17,511)
Reserves including pension liability	24	70,419	69,796	56,749	55,813
TOTAL		162,361	160,369	138,325	136,653

S PEARCE, Vice-Chancellor and Designated Officeholder
B CARSBURG, Chair of Council

Consolidated Cash Flow Statement and Related Notes

Year Ended 31 July 2007

RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2006/07	2005/06
		£'000	£'000
Surplus Before Tax and (loss)/profit on disposal of assets		6,559	5,406
Depreciation	11	9,982	8,415
Impairment	11	369	0
Benefit on Acquisition of LCAD released to Income	12	(134)	(134)
Deferred Capital Grants released to Income	22	(4,603)	(3,872)
Investment Income	5	(2,298)	(1,936)
Interest Payable	7	1,818	2,217
(Increase)/Decrease in Stocks		(37)	19
Decrease in Debtors		209	1,730
Increase in Creditors		3,419	6,341
(Decrease)/Increase in provision		(57)	16
Pension costs less contributions payable		2,155	848
NET CASH INFLOW FROM OPERATING ACTIVITIES		17,382	19,050

CONSOLIDATED CASH FLOW STATEMENT

	Note	2006/07	2005/06
		£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		17,382	19,050
Returns on Investment and Servicing of Finance			
Income from Endowments	23	177	99
Other Interest received		1,758	1,962
Interest Paid		(1,773)	(2,414)
		162	(353)
Taxation		(4)	(46)
Capital Expenditure and Financial Investment			
Payments made to acquire fixed assets		(27,147)	(32,927)
Proceeds from sales of fixed assets		125	935
Impairment loss		(2,797)	0
Fixed Asset Investment Disposals		8	46
Net (disposals) of endowments		(137)	(7)
Changes in long term Loans		30	(200)
Deferred Capital Grants Received	22	14,226	18,448
		(15,692)	(13,705)
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		1,848	4,946
Management of Liquid Resources		(1,642)	7,139
Financing	29	(528)	(18,383)
DECREASE IN CASH		(322)	(6,298)

Consolidated Cash Flow Statement and Related Notes

Year Ended 31 July 2007

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS/(DEBT)

	Note	2006/07 £'000	2005/06 £'000
DECREASE IN CASH IN THE PERIOD		(322)	(6,298)
Change in Short Term Deposits		1,642	(7,139)
Change in Debt		<u>528</u>	<u>18,383</u>
CHANGE IN NET FUNDS		1,848	4,946
Net Debt at Beginning of the Year	30	(1,170)	(6,116)
NET FUNDS/(DEBT) AT THE END OF THE YEAR	30	<u><u>678</u></u>	<u><u>(1,170)</u></u>

Notes to the Accounts

1 FUNDING COUNCIL GRANTS

	2006/07 £'000	2005/06 £'000
HEFCE Recurrent:		
Teaching	35,396	34,524
Research	15,155	14,288
Other	4,971	5,488
LSC Recurrent	982	961
TDA	703	695
Deferred Capital Grants Released in Year :		
Buildings (Note 22)	1,016	854
Equipment (Note 22)	1,601	1,120
	<u>59,824</u>	<u>57,930</u>

2 ACADEMIC FEES AND SUPPORT GRANTS

Home Students	23,286	17,926
International Students	20,054	17,765
	<u>43,340</u>	<u>35,691</u>

3 RESEARCH GRANTS AND CONTRACTS

Research Councils and Charities	14,872	15,481
Industry and Commerce	3,873	4,124
Governmental	11,640	11,926
	<u>30,385</u>	<u>31,531</u>

Facilities for research with a value of £12,000 (2005/06 - £170,000) were donated to the University, but are not included in the above.

4 OTHER INCOME

	2006/07 £'000	2005/06 £'000
Residences, Catering and Conferences	27,335	24,420
Other income	12,628	13,341
Benefit on acquisition of LCAD - Release to Income (Note 12)	134	134
Released from Deferred Capital Grants	1,209	1,122
	<u>41,306</u>	<u>39,017</u>

5 ENDOWMENT AND INVESTMENT INCOME

Income from Specific Endowments (Note 23)	177	99
Income from Short-term Investments	1,771	1,607
Net return on pension scheme	350	230
	<u>2,298</u>	<u>1,936</u>

Notes to the Accounts

6 STAFF COSTS

	2006/07	2005/06
	£'000	£'000
Staff Costs :		
Wages and Salaries	80,515	75,243
Social Security Costs	6,612	6,148
Other Pension Costs (Note 31)	12,103	9,910
Exceptional Restructuring Costs	242	440
Total	<u>99,472</u>	<u>91,741</u>
Staff Costs - Operational	99,230	91,301
Staff Costs - Restructuring	<u>242</u>	<u>440</u>

The emoluments of the Vice-Chancellor (excluding employers pension contributions) amounted to £160,000 (2005/06 - £158,300) and are disclosed on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme (USS) in respect of the Vice-Chancellor are on the standard basis for academic and related staff and amounted to £22,400 (2005/06 - £20,952).

Remuneration of other higher paid staff, excluding employer's pension contributions:	No.	No.
£70,000 to £79,999	33	25
£80,000 to £89,999	18	8
£90,000 to £99,999	6	7
£100,000 to £109,999	<u>4</u>	<u>3</u>

Average Staff Numbers by Major Category :	No.	No.
Academic	598	562
Teaching and scholarship	52	54
Research	344	359
Management & Specialist	413	362
Technical	208	185
Other	915	1,068
	<u>2,530</u>	<u>2,590</u>

The average staff numbers, by major category, are expressed as full-time equivalents and are disclosed at a consistent date, that is at 1 April each year.

Notes to the Accounts

7 INTEREST PAYABLE

	2006/07	2005/06
	£'000	£'000
Loans not wholly repayable within five years	1,818	2,217
	<u>1,818</u>	<u>2,217</u>

8 ANALYSIS OF EXPENDITURE BY ACTIVITY

	£'000	£'000
Academic Departments	69,206	64,570
Academic Services	11,182	10,964
Research Grants and Contracts	24,849	25,070
Residences, Catering and Conferences	23,349	20,317
Premises	14,354	14,679
Administration and Central Services	21,378	17,938
Other Expenses	6,276	7,161
	<u>170,594</u>	<u>160,699</u>

Notes to the Accounts

9 SURPLUS BEFORE TAX

	2006/07 £'000	2005/06 £'000
This is stated after charging/(crediting):		
External Auditors Remuneration in Respect of Audit Services (University 2006/07 - £53,000, 2005/06 - £43,000)	70	62
External Auditors Remuneration in Respect of Non-Audit Services	27	5
Loss on disposal of fixed assets:		
Profit on disposal of Fixed Assets	(115)	(758)
Loss on assignment of lease	<u>2,797</u>	0
Impairment loss	369	0
Operating Lease Rentals	398	426
Plant & machinery	80	76
Other	216	287

10 TAX

UK Corporation Tax (credit)/charge on the profits of subsidiary companies	(132)	209
Deferred Tax re subsidiary company - origination and reversal of timing differences	<u>174</u> <u>42</u>	<u>0</u> <u>209</u>

Notes to the Accounts

11 TANGIBLE ASSETS

	Freehold Land and Buildings £'000	Leasehold Land and Buildings £'000	Fixtures, Fittings and Equipment £'000	Total £'000
CONSOLIDATED				
Cost and valuation:				
At 1 August 2006	176,300	45,186	38,527	260,013
Additions at cost	15,676	4,331	7,140	27,147
Disposals at cost	(74)	0	(1,273)	(1,347)
At 31 July 2007	<u>191,902</u>	<u>49,517</u>	<u>44,394</u>	<u>285,813</u>
Depreciation:				
At 1 August 2006	(37,767)	(2,848)	(23,864)	(64,479)
Charge for the year	(4,389)	(912)	(4,681)	(9,982)
Eliminated on disposals	74	0	1,257	1,331
Loss on impairment	(369)	0	0	(369)
At 31 July 2007	<u>(42,451)</u>	<u>(3,760)</u>	<u>(27,288)</u>	<u>(73,499)</u>
Net Book Value:				
At 31 July 2007	<u>149,451</u>	<u>45,757</u>	<u>17,106</u>	<u>212,314</u>
At 31 July 2006	<u>138,533</u>	<u>42,338</u>	<u>14,663</u>	<u>195,534</u>
UNIVERSITY				
Cost and valuation:				
At 1 August 2006	166,973	45,186	35,646	247,805
Additions at cost	16,816	4,331	5,645	26,792
Disposals at cost	(74)	0	(1,149)	(1,223)
At 31 July 2007	<u>183,715</u>	<u>49,517</u>	<u>40,142</u>	<u>273,374</u>
Depreciation:				
At 1 August 2006	(37,297)	(2,848)	(21,951)	(62,096)
Charge for the year	(4,204)	(912)	(4,150)	(9,266)
Eliminated on disposals	74	0	1,139	1,213
Loss on impairment	(369)	0	0	(369)
At 31 July 2007	<u>(41,796)</u>	<u>(3,760)</u>	<u>(24,962)</u>	<u>(70,518)</u>
Net Book Value:				
At 31 July 2007	<u>141,919</u>	<u>45,757</u>	<u>15,180</u>	<u>202,856</u>
At 31 July 2006	<u>129,676</u>	<u>42,338</u>	<u>13,695</u>	<u>185,709</u>

Note: Freehold and leasehold buildings with a net book value of £35M (2005/06 - £33M) and cost of £46M (2005/06 - £39M) have been funded from Treasury sources: should these particular buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Higher Education Funding Council for England. At 31 July 2007, freehold land and buildings at cost included £14M (2005/06 - £11M) in respect of buildings under construction.

Note: The cost of fixed assets held for use in operating leases amount to £26M (2005/06 - £26M) with accumulated depreciation of £2.2M (2005/06 - £1.7M).

Notes to the Accounts

12 BENEFIT ARISING FROM THE ACQUISITION OF LOUGHBOROUGH COLLEGE OF ART & DESIGN (CONSOLIDATED AND UNIVERSITY)

	£'000
Fair Value:	
At 31 July 2007 and at 1 August 2006	<u>5,565</u>
Released to Income and Expenditure Account :	
At 1 August 2006	(2,268)
Release for year (Note 4)	(134)
At 31 July 2007	<u>(2,402)</u>
Net Book Value :	
At 31 July 2007	<u><u>3,163</u></u>
At 31 July 2006	<u><u>3,297</u></u>

13 INVESTMENTS

	2006/07		2005/06	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Subsidiary companies (Note 33)	0	8,371	0	8,479
Subsidiary investments in spinouts	21	0	29	0
Trade Investments:				
CVCP Properties PLC	42	42	42	42
Adsfab Limited	6	6	6	6
Lachesis Seed Fund Limited	200	200	200	200
Net book value at 31 July	<u><u>269</u></u>	<u><u>8,619</u></u>	<u><u>277</u></u>	<u><u>8,727</u></u>

Note: The market value of all shareholdings at 31 July 2007 is not significantly different from those values stated above.

Notes to the Accounts

14 LONG-TERM LOANS

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Loughborough Students Union	270	270	300	300
Imago @ Loughborough Ltd	0	28	0	690
	<u>270</u>	<u>298</u>	<u>300</u>	<u>990</u>

Note: The loan granted to Loughborough Students Union is unsecured, interest is linked to base rate and is repayable over the period to 1 November 2015.

Note: The loan granted to Imago @ Loughborough Ltd is unsecured, interest is linked to base rate and is repayable over the period to 31 July 2012.

15 ENDOWMENT ASSET INVESTMENTS (CONSOLIDATED AND UNIVERSITY)

	2006/07		2005/06
	Consolidated £'000	University £'000	Consolidated & University £'000
Balance at 1 August 2006	1,434	1,434	1,349
Additions	179	9	15
Disposals	(1)	(1)	(22)
Appreciation on Revaluation	19	19	45
Increase in cash balances	546	40	47
Balance at 31 July 2007	<u>2,177</u>	<u>1,501</u>	<u>1,434</u>
Quoted Unit Trusts (Unlisted)	1,344	1,174	1,147
Bank Balances	833	327	287
Total Endowment Asset Investments	<u>2,177</u>	<u>1,501</u>	<u>1,434</u>

Notes to the Accounts

16 DEBTORS

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Amounts falling due within one year:				
Trade debtors	12,470	11,135	12,866	11,483
Prepayments and Accrued Income	741	657	541	416
Amounts due from subsidiary companies	0	1,821	0	645
	<u>13,211</u>	<u>13,613</u>	<u>13,407</u>	<u>12,544</u>

17 SHORT TERM DEPOSITS

Short term deposits include 63,113 BTG plc ordinary shares of 10p each.
The cost of the shares was £4,722 and their market value as at 31 July 2007 was £63,902.

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
	<u>26,718</u>	<u>26,204</u>	<u>25,076</u>	<u>24,205</u>

18 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Bank Overdraft	0	0	142	0
Unsecured Loans	541	541	541	541
Payments Received on Account	33,814	33,814	26,931	26,931
Trade creditors	11,357	10,624	15,143	14,396
Social Security and Other Taxation Payable	2,888	2,564	2,630	2,421
Accruals and Deferred Income	3,926	2,477	3,752	2,185
	<u>52,526</u>	<u>50,020</u>	<u>49,139</u>	<u>46,474</u>

Notes to the Accounts

19 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Unsecured loans repayable by 2035	33,663	33,663	34,191	34,191
	<u>33,663</u>	<u>33,663</u>	<u>34,191</u>	<u>34,191</u>

20 BORROWINGS

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Analysis of Unsecured Loans and Overdrafts:				
In one year or less	541	541	683	541
Due between one and two years	569	569	564	564
Due between two and five years	1,894	1,894	1,867	1,867
Due in five years or more	31,200	31,200	31,760	31,760
	<u>34,204</u>	<u>34,204</u>	<u>34,874</u>	<u>34,732</u>

£16m of the above loan is fixed at a rate of 5.1525% until March 2019. Interest on the remaining loan is charged at 0.18% above base rate. These loans are repayable by instalments over the period to 10 December 2035.

21 PROVISIONS FOR LIABILITIES

	Consolidated			
	Deferred tax £'000	Premature Retirement Compensation £'000	Enhanced Pension Costs £'000	Total £'000
At 1 August 2006	0	404	1,702	2,106
Utilised in year	0	(395)	(105)	(500)
Transfer from Income and Expenditure Account	174	154	115	443
At 31 July 2007	<u>174</u>	<u>163</u>	<u>1,712</u>	<u>2,049</u>
Deferred Tax is provided as follows;				
Accelerated capital allowances	<u>174</u>			

	University		
	Premature Retirement Compensation £'000	Enhanced Pension Costs £'000	Total £'000
At 1 August 2006	404	1,702	2,106
Utilised in year	(395)	(105)	(500)
Transfer from Income and Expenditure Account	154	115	269
At 31 July 2007	<u>163</u>	<u>1,712</u>	<u>1,875</u>

Note: The assumptions for calculating the Provision for Enhanced Pension Costs under Financial Reporting Standard (FRS) 17, Retirement Benefits, are as follows:

	31 July 2007	31 July 2006
Discount Rate	5.8%	5.1%
Inflation	<u>3.3%</u>	<u>3.1%</u>

Notes to the Accounts

22 DEFERRED CAPITAL GRANTS

CONSOLIDATED	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2006:			
Buildings	32,599	41,739	74,338
Equipment	4,503	1,301	5,804
Total	<u>37,102</u>	<u>43,040</u>	<u>80,142</u>
Cash Receivable:			
Buildings	3,613	5,210	8,823
Equipment	4,785	618	5,403
Total	<u>8,398</u>	<u>5,828</u>	<u>14,226</u>
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(1,016)	(1,097)	(2,113)
Equipment (Notes 1, 3 and 4)	(1,601)	(889)	(2,490)
Total	<u>(2,617)</u>	<u>(1,986)</u>	<u>(4,603)</u>
At 31 July 2007:			
Buildings	35,196	45,852	81,048
Equipment	7,687	1,030	8,717
Total	<u>42,883</u>	<u>46,882</u>	<u>89,765</u>
UNIVERSITY			
	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2006:			
Buildings	32,599	41,003	73,602
Equipment	4,503	1,301	5,804
Total	<u>37,102</u>	<u>42,304</u>	<u>79,406</u>
Cash Receivable:			
Buildings	3,613	5,210	8,823
Equipment	4,785	618	5,403
Total	<u>8,398</u>	<u>5,828</u>	<u>14,226</u>
Released to Income and Expenditure:			
Buildings	(1,016)	(1,054)	(2,070)
Equipment	(1,601)	(889)	(2,490)
Total	<u>(2,617)</u>	<u>(1,943)</u>	<u>(4,560)</u>
At 31 July 2007:			
Buildings	35,196	45,159	80,355
Equipment	7,687	1,030	8,717
Total	<u>42,883</u>	<u>46,189</u>	<u>89,072</u>

Notes to the Accounts

23 SPECIFIC ENDOWMENTS (CONSOLIDATED AND UNIVERSITY)

	2006/07		2005/06
	Consolidated £'000	University £'000	Consolidated & University £'000
At 1 August 2006	1,434	1,434	1,349
Net Additions/(Disposals)	178	8	(7)
Appreciation of Endowment Asset Investments	19	19	45
Income for Year	177	177	99
Expenditure for Year	(137)	(137)	(52)
Transfer to Endowments	506	0	0
At 31 July 2007	2,177	1,501	1,434

24 RESERVES

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Income and expenditure account reserve				
At 1 August	56,749	55,813	51,061	50,390
Surplus retained for the year	3,795	3,432	5,908	5,643
Transfer to Endowments	(676)	0	0	0
Actuarial gain/(loss) in respect of pension scheme	10,551	10,551	(220)	(220)
At 31 July	70,419	69,796	56,749	55,813
Balance represented by:				
Pension reserve	(8,765)	(8,765)	(17,511)	(17,511)
Income and expenditure reserve excluding pension reserve	79,184	78,561	74,260	73,324
	70,419	69,796	56,749	55,813

25 LEASE OBLIGATIONS

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Land and Buildings				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Over five years	80	80	70	70
	80	80	70	70
Other				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	25	6	51	45
Between one and two years	18	11	185	167
Between two and five years	117	83	58	34
Over five years	55	0	60	0
	215	100	354	246

Notes to the Accounts

26 CAPITAL COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2007:

	2006/07		2005/06	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Commitments contracted	11,229	11,105	7,652	7,562
Authorised but not contracted	8,037	7,046	6,844	5,784
	<u>19,266</u>	<u>18,151</u>	<u>14,496</u>	<u>13,346</u>

27 CONTINGENT LIABILITIES

Guarantees –				
to various Building Societies for staff mortgages	0	0	6	6
to HSBC plc for Imago@Loughborough Ltd	0	500	0	500
to Barclays for sale of equipment	191	191	191	191
	<u>191</u>	<u>691</u>	<u>197</u>	<u>697</u>

Notes: The University has given written undertakings to support the subsidiary companies for at least the next twelve months.

28 HARDSHIP FUNDS (CONSOLIDATED AND UNIVERSITY)

	2006/07		2005/06	
	£'000	£'000	£'000	£'000
Income:				
Excess of Income over Expenditure Brought Forward	67		54	
Funding Council Grants	280		457	
Interest Earned	<u>2</u>	349	<u>2</u>	513
Expenditure:				
Disbursed to Students	(327)		(430)	
Fund Running Costs	<u>(12)</u>	(339)	<u>(16)</u>	(446)
Excess of Income over Expenditure Carried Forward		<u>10</u>		<u>67</u>

Note:

Funding Council grants are available solely to assist students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

Notes to the Accounts

29 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2006/07 £'000	2005/06 £'000
Balance at 1 August 2006	34,732	53,115
Capital Repayments	(528)	(18,383)
Balance at 31 July 2007	34,204	34,732
Repayable:		
Within one year	541	541
Over one year	33,663	34,191
	34,204	34,732

30 ANALYSIS OF CHANGES IN NET (DEBT)/FUNDS

	At 1st August 2006 £'000	Cash Flows £'000	Other Non-Cash Changes £'000	At 31st July 2007 £'000
Cash at Bank and In Hand :				
Endowment Assets	287	546	0	833
Other	8,341	(1,010)	0	7,331
Bank Overdraft	(142)	142	0	0
	<u>8,486</u>	<u>(322)</u>	<u>0</u>	<u>8,164</u>
Short Term Investments	25,076	1,642	0	26,718
Debts Due Within One Year	(541)	528	(528)	(541)
Debts Due After One Year	(34,191)	0	528	(33,663)
	<u>(1,170)</u>	<u>1,848</u>	<u>0</u>	<u>678</u>

Notes to the Accounts

31 PENSION SCHEMES

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Leicestershire Government Pension Scheme (LGPS). Also for academic staff who were employed by Loughborough College of Art & Design in August 1998, contributions are paid to Teachers' Pensions (TP).

The total pension cost for the University and its subsidiaries was:

	2006/07 £'000	2005/06 £'000
USS contributions paid	7,525	6,787
LGPS charge to the Income & Expenditure account	4,452	2,999
TP contributions paid	122	120
Contributions paid to other pension schemes	<u>4</u>	<u>4</u>
Total Pension Cost (Note 6)	12,103	9,910
Outstanding Pension Contributions at 31 July	1,151	1,065

The assumptions and other data relevant to the determination of the contribution levels of the Schemes are as follows:

	USS	LGPS	TP
Latest actuarial valuations	31 March 2005	31 March 2004	31 March 2004
Investment returns per annum	4.50%	6.30%	6.50%
Salary scale increase per annum	3.90%	4.40%	3.50%
Pension increase per annum	2.90%	2.90%	3.50%
Market value of assets at date of last valuation	£21,739 million	£1,389 million	£163,240 million
MFR proportion of members' accrued benefits covered by the actuarial value of the assets	126%	87%	100%

Teachers' Pensions

TP is updated every year by the Government Actuary. Contributions are paid by the University at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made from funds voted by Parliament.

The contribution rate payable by the employer was increased to 14.1% from 13.5% of pensionable salaries with effect from 1 January 2007. This contribution rate will be capped for 3 years. The aim of the actuarial review was to specify the level of future contributions. The cost of the pension increases was excluded from the valuation and consequently the additional value is met directly by the Exchequer.

Under the definitions set out in Financial Reporting Standard 17 "Retirement benefits" (FRS 17), the TP is a multi-employer defined benefit pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions as if it were a defined contribution scheme.

Notes to the Accounts

Universities Superannuation Scheme

USS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the USS actuary reviews the progress of the USS scheme.

The contribution rate payable by the University to USS was 18.55% of pensionable salaries to 31 December 1996 and 14% thereafter. The actuary to USS has confirmed that it is appropriate to take the pensions costs in the institution's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 2005 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future working lifetime of current scheme members.

Under the definitions set out in FRS 17, the USS is a multi-employer defined benefit pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions as if it were a defined contribution scheme.

Leicestershire Government Superannuation Scheme

LGPS is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the LGPS actuary reviews the progress of the LGPS scheme.

For LGPS, the actuary has indicated that the resources of the scheme are likely, in the normal course of events, to meet the liabilities as they fall due at the level specified by the LGPS Regulations. As a result of the 2004 valuation, the contribution payable by the employer was increased to 14.7% from 13.5% of pensionable salaries from 1st April 2007 and this is likely to increase further to 15.9% from 1st April 2008.

Under the definitions set out in FRS 17, the LGPS is a multi-employer defined benefit pension scheme. In the case of the LGPS, the actuary of the scheme has identified the University's share of its assets and liabilities as at 31 July 2007 and disclosed their share of assets and liabilities for the scheme.

The following information is based upon a full actuarial valuation of the scheme at 31 March 2004 updated to 31 July 2007 by a qualified independent actuary.

The financial assumptions used by the actuary at 31 July 2007 were:

	2006/07	2005/06	2004/05
	%	%	%
Price increases	3.3	3.1	2.8
Salary increases	4.8	4.6	4.3
Pension increases	3.3	3.1	2.8
Discount rate	5.8	5.1	5.0

The assets in the LGPS scheme and the expected rate of return were:

	2006/07		2005/06		2004/05	
	LONG-TERM RETURN %	FUND VALUE £'000	LONG- TERM RETURN %	FUND VALUE £'000	LONG-TERM RETURN %	FUND VALUE £'000
Equities	8.0	55,384	7.7	53,881	7.3	47,781
Bonds	5.2	11,003	4.7	12,458	4.7	10,655
Property	6.0	6,529	5.7	6,773	5.4	6,085
Cash	5.1	1,254	4.8	3,065	4.5	2,287
		74,170		76,177		66,808

Notes to the Accounts

The following amounts at 31 July 2007 were measured in accordance with the requirements of FRS 17.

	2006/07	2005/06
	£'000	£'000
Loughborough University's estimated asset share	74,170	76,177
Present value of Loughborough University's scheme liabilities	(82,935)	(93,688)
Deficit in the scheme - Net pension liability	<u>(8,765)</u>	<u>(17,511)</u>

Analysis of the amount charged to operating surplus

	2006/07	2005/06
	£'000	£'000
Current service cost	3,098	2,959
Past service cost	33	40
Impact of settlements and curtailments	1,321	0
Total operating charge	<u>4,452</u>	<u>2,999</u>

Analysis of the amount that is credited to other finance income

	2006/07	2005/06
	£'000	£'000
Expected return on pension scheme assets	5,021	4,438
Interest on pension scheme liabilities	(4,671)	(4,208)
Net return	<u>350</u>	<u>230</u>

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	2006/07	2005/06
	£'000	£'000
Actual return less expected return on pension scheme assets	4,250	4,388
Experience gains and losses arising on the scheme liabilities	32	1
Changes in assumptions underlying the present value of the scheme liabilities	6,269	(4,609)
Actuarial gain/(loss) recognized in STRGL	<u>10,551</u>	<u>(220)</u>

Movement in deficit in the year

	2006/07	2005/06
	£'000	£'000
Deficit in scheme at beginning of the year	(17,511)	(16,673)
Movement in the year:		
Current service cost	(3,098)	(2,959)
Contributions	2,297	2,151
Past service costs	(33)	(40)
Net return on assets	350	230
Impact of settlements and curtailments	(1,321)	0
Actuarial (loss)/gain	10,551	(220)
Deficit in the scheme at end of the year	<u>(8,765)</u>	<u>(17,511)</u>

History of experience gains and losses

	2006/07	2005/06	2004/05	2003/04	2002/03
	£'000	£'000	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	4,250	4,388	7,782	1,017	(740)
Percentage of scheme assets	5.7%	5.8%	11.6%	1.9%	(1.5%)
Experience gains and losses on scheme liabilities:					
Amount (£'000)	32	1	3,649	0	20
Percentage of the present value of the scheme liabilities	0.0%	0.0%	4.4%	0.0%	0.0%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	10,551	(220)	2,067	930	(8,500)
Percentage of the present value of the scheme liabilities	12.7%	(0.2%)	2.5%	1.3%	(12.7%)

Notes to the Accounts

32 DISCLOSURE OF RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the compositions of the Council, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest, including those identified below, are conducted at arms' length and in accordance with the University's Financial Regulations and usual procurement procedures.

	Income £'000	Expenditure £'000	Balances as at 31.7.07 due (to)/from the University £'000
Members of Council			
J Mutton is Principal of Loughborough College	154	97	(7)
S Proffitt is Site Manager of AstraZeneca R&D Charnwood	135	0	(6)
Dr R Parry-Jones is Group Vice-President of The Ford Motor Company	805	34	(187)
Directors of subsidiaries & senior employees			
H M Pearson is a Director of UCAS	1	110	1
H M Pearson is a Governor of Loughborough College	154	97	(7)

The University has taken advantage of the exemption allowed by Financial Reporting Standard 8 not to disclose transactions between group companies.

The University Officers and Members of Council have used the catering, sporting and other facilities of the University on terms which are available to all members of University staff.

Notes to the Accounts

33 SUBSIDIARY COMPANIES

The subsidiary companies (all of which are registered in England & Wales), wholly-owned or effectively controlled by the University, are as follows:

Company	Principal Activity
Ergonomics and Safety Research Ltd	Marketing of the expertise and facilities of the University in applicable specialist areas.
Loughborough University Enterprises Ltd	
Loughborough University Holdings Ltd	Holding company for Loughborough University Enterprises Ltd
CASCAiD Ltd	Production and sale of computer-aided careers guidance
Imago @ Loughborough Ltd	Management of conference and related commercial facilities
Loughborough Sports Facilities Ltd	Management of sports facilities
Loughborough University Services Ltd	Provision of utility and other services
Loughborough University Development Trust	Promotion of the charitable purposes of the University
Loughborough Innovation Centre Ltd	Letting of premises to business start-up companies
Imago @ Loughborough 2 Ltd	Provision of conference facilities (dissolved October 2006)
Open College Network South East Midlands Ltd	Provision of accreditation services for sub-degree level education (dissolved September 2006)

Notes to the Accounts

Consolidated Five Year Results

INCOME AND EXPENDITURE ACCOUNT

	2006/07 £'000	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000
Income	177,153	166,105	152,940	149,472	135,771
Expenditure	(170,594)	(160,699)	(150,369)	(141,377)	(132,706)
Surplus For The Year Retained Within Reserves	3,795	5,908	4,381	8,043	3,818

BALANCE SHEET

	2006/07 £'000	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000
Fixed Assets and Investments	209,690	192,814	168,192	157,594	145,896
Endowment Assets	2,177	1,434	1,349	1,360	1,508
Net Current (Liabilities)/Assets	(5,029)	(2,115)	18,243	22,434	15,953
Less Amounts Due After More Than One Year:					
Creditors Due After More Than One Year	(33,663)	(34,191)	(51,045)	(53,100)	(55,075)
Provisions	(2,049)	(2,106)	(2,090)	(2,510)	(2,205)
Pension liability	(8,765)	(17,511)	(16,673)	0	0
Total Net Assets	162,361	138,325	117,976	125,778	106,077
Represented by:					
Deferred Capital Grants	89,765	80,142	65,566	61,765	49,959
Specific Endowments	2,177	1,434	1,349	1,360	1,508
Reserves	79,184	74,260	67,734	62,653	54,610
Pension reserve	(8,765)	(17,511)	(16,673)	0	0
Total Funds	162,361	138,325	117,976	125,778	106,077

CASH FLOW STATEMENT

	2006/07 £'000	2005/06 £'000	2004/05 £'000	2003/04 £'000	2002/03 £'000
Net Cash Inflow from Operating Activities	17,382	19,050	14,831	14,678	13,825
Returns on Investment and Servicing of Finance	162	(353)	(1,147)	(1,419)	(762)
Taxation	(4)	(46)	(2)	0	11
Capital Expenditure and Financial Investment	(15,692)	(13,705)	(8,910)	1,420	(36,064)
Net Cash Inflow/(Outflow) Before Management of Liquid Resources and Financing	1,848	4,946	4,772	14,679	(22,989)
Management of Liquid Resources	(1,642)	7,139	1,177	(13,488)	(533)
Financing	(528)	(18,383)	(1,969)	(1,978)	29,629
(Decrease)/Increase In Cash Balances	(322)	(6,298)	3,980	(787)	6,107