



Financial Statements

Financial Statements 2001-2002

Financial Statements 2001-02

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ADVISERS

Bankers

Lloyds TSB plc

Solicitors

Birkett Long
Mills & Reeve
Devonshires

Auditors

Scrutton Bland

Investment Managers

Deutsche Asset Management Limited
Investec Asset Management Limited
Merrill Lynch Investment Managers
M & G Securities Limited

Insurers

UM Association Limited
UM Association (Terrorism) Limited

Treasurer's Report

Introduction

The outstanding features of 2001-02 for the University were its success in the 2001 Research Assessment Exercise (RAE), the fourth consecutive perfect score of '24/24' for teaching quality, and a 12% increase in the number of undergraduate admissions. This is concrete evidence that the University is achieving its goals of growth and excellence, whilst maintaining sound finances.

Results for the Year

The consolidated Income and Expenditure Account for the year to 31 July 2002 is summarised below:

	2001-02	2000-01
	£000	£000
Income	67,593	63,618
Expenditure	66,735	62,539
Surplus for the Year before Exceptional Items	858	1,079
Profit on the Sale of Fixed Assets	858	326
Loss on the Sale of Investments	(240)	-
Surplus for the Year	1,476	1,405

This is a creditable result given the challenges faced by the University in the year. Although the numbers of students admitted to study for University of Essex degrees increased substantially, Home/EU undergraduate numbers fell short of our ambitious growth targets leading to clawback of core Higher Education Funding Council for England (HEFCE) Teaching Grant. Immediate action was taken to ensure that the University's surplus was maintained - an essential response if the University's capital programme ambitions are to be realised. Although this required difficult decisions by budget managers across the University, the results show that this effort was successful.

I reported last year that income from full fee-paying overseas students had increased by 18%. In 2000-01, this income has increased by a further 20% to stand at £9.9m.

Although income from research grants and contracts decreased over the year by 6%, this followed an exceptional 22% increase the year before. Over the last five years income from research grants and contracts has shown an upward trend, increasing by over 28%. The acquisition during the year of 'Chimera', a research team from BT, based at Adastral Park, complements the University's research strengths and will increase income earning capacity. Indirect cost recovery was 16.5% (16.9% in 2000-01). Residences, Catering and Conferences overall had another good year, accounting for £1.2m of the total surplus, representing a margin of 12.8% (11.9% in 2000-01).

Critical to securing the University's medium-term financial health was a successful outcome in the 2001 Research Assessment Exercise (RAE). The RAE is fundamental not only in establishing the level of core HEFCE Research Grant for at least the next five years, but also for building the University's reputation. The quality of our research is now ranked in the top 10 of UK universities by the *Times Higher Educational Supplement*. The 2001 RAE will generate a 16% increase in the core Research Grant for 2002-03 onwards, amounting to an

Treasurer's Report (continued)

extra £1m per annum. This increase would have been higher but for the Government's decision not to fund fully the outcome of the 2001 RAE.

It is not only on research that the University is awarded high scores. Teaching quality is also subject to external review. In 2001-02 the fourth consecutive department achieved the highest possible score, ranking the University sixth nationwide for teaching quality by the *Times Higher Education Supplement*. Enhancing and maintaining the quality of the core offering - teaching and research - is fundamental to the financial success of the University in what is an intensely competitive environment.

Capital Projects

The University is currently undertaking significant investment in its estate. Capital expenditure during the year amounted to £5.5m (£3.2m in 2000-01). Two major projects were completed. Building 2001, at a cost of £2.95m, has provided much needed accommodation to house the growth of academic activity of the last few years. The extension to the Sports Centre, costing £1.1m, was also completed.

Three major projects started during the year. The University Quays student residences will provide 774 new study-bedrooms. At a cost of £25m, this will be the largest project the University has undertaken and is being financed by a term loan. The Networks Centre is a £6m project, 75% funded by HEFCE grant, to provide new accommodation enabling the co-location of Computer Science and Electronic Systems Engineering. Completion is expected in March 2004. Finally, work is well advanced on the £2.5m Biological Sciences extension, with completion expected in March 2003.

Investment on this scale shows that the University is serious about creating high-quality facilities to support the provision of first-rate higher education. However, apart from the University Quays, these new facilities largely represent 'catching up' with past growth and dealing with the existing less than satisfactory accommodation. Even the University Quays is expected to be at full capacity in its first year of operation, leaving large pockets of unmet demand from the student population for campus accommodation. The University must, therefore, continue to invest in new teaching capacity, more student residences and a renewal of its basic infrastructure. Failure to do so will severely constrain future growth.

The University is also providing £2m, together with a £2m grant from HEFCE, to part fund a new £52m building currently under construction by the South East Essex College (SEEC) in Southend-on-Sea. This will underpin the joint venture the University has with the College to expand the provision of higher education in South Essex.

Cash Flow

Cash inflow from operating activities has improved to £1.6m (£0.5m in 2000-01). However, as the University is financing a substantial part of the current capital buildings programme from its own resources, total cash (cash at bank and short-term deposits shown as current asset investments) has decreased by £3.2m. This will be a continuing trend.

The University intends to finance the University Quays project (£25m) and its contribution to the SEEC project (£2m) by borrowing £27m. As a consequence of this the University has implemented a new policy to ensure that it is not excessively exposed to interest rate risk. The policy aims to ensure that almost 70% of total debt outstanding is covered by fixed interest rates and has been executed by entering into a number of interest rate swap agreements.

Treasurer's Report (continued)

Investment Performance

The events of 11 September 2001 in the USA, the crisis of confidence in financial reporting in corporate America and political tensions in the Middle-East have had dramatic effects on equity markets. For the second consecutive year, the University's two equity funds declined in value, 9% in 2000-01 and a further 20% in 2001-02. These funds back the University's endowments and as such are held for the long-term, principally for income generation to support research expenditure. Changes in capital values, even dramatic ones, will not significantly impinge on the ability of those investments, in the short term, to continue to support such expenditure. Despite these paper capital losses it is gratifying to report that both fund managers exceeded their performance benchmarks and both rank highly in their class.

The University also holds investments in a fixed interest fund which has performed well, as have both the internal and external cash managers. More disappointing is the performance of the University's modest holdings of zero-dividend preference shares. Over the year a number of these have been disposed of resulting in losses of £156k. The remaining holdings, which represent the strongest split capital trusts, had a market value at 31 July 2002 that was below their book cost, resulting in an £84k charge to the Income and Expenditure Account.

Future Developments

The Funding Council has re-imposed 'efficiency savings', or real term cuts, on core Teaching Grant in the sector. The 2002-03 Teaching Grant has been inflated by 1.7%, substantially below 'real' cost inflation given pay awards of 3.5%, the Government's own 1% increase in employer National Insurance costs and a 20% increase in the cost of funding the pension scheme for support staff. It is disheartening to see the extra income from the 2001 RAE eroded by these extra costs and continued under-funding of inflation.

On the plus side the 2002 Spending Review contained many positive announcements with respect to science and research funding and we look forward to seeing these announcements convert to detailed proposals backed by new money. We are also awaiting publication of the promised Strategy Review on Higher Education with great interest.

The difficulties of student recruitment experienced in October 2001 were not repeated in October 2002. On the contrary there has been a surge in demand from Home/EU undergraduates and, even more so, from overseas students, both undergraduate and post-graduate. This provides a brighter financial outlook for 2002-03.

The University's healthy surpluses over the last few years have been substantially helped by a programme of asset sales, mainly off-campus houses. This programme is now largely at an end. The University is currently evolving a new medium-term financial strategy but has already implemented a series of measures aimed to ensure that on a recurrent basis, a surplus of at least £2m is achieved per annum. This is a demanding target, but if we are to expand our capacity it must be achieved.

Finally, the University has formed the Carisbrooke-Essex Partnership, a joint-venture to begin to realise our long-held ambitions to establish a Research Park on campus. This will be a long-term development, the progress of which will be reported in future years.

Derek Lewis
Treasurer

Corporate Governance, Risk Management and Internal Control

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the Financial Statements understand how the principles have been applied.

The University's Governing Body is its Council. This numbers 35, and comprises lay members, academic staff and students, appointed under the statutes of the University. The majority of members are non-executive. The roles of Chair and Vice-Chair of the Council are separated from the role of the Vice-Chancellor. The matters especially reserved to the Council for decision are set out in the Statutes of the University, by custom and under the Financial Memorandum with HEFCE. The Council retains responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Senior Management on the day-to-day operations of its business and its subsidiary companies.

The Council normally meets four times a year and receives reports on the functioning of the University and subsidiary companies. It has several Sub-Committees, including a Finance & Strategy Committee, a Remuneration Committee, an Audit and Risk Management Committee, a Health and Safety Committee and a Development Committee. All of these committees are formally constituted with terms of reference. Much of the business of the Council is transacted through the committee structure.

In respect of its strategic responsibilities, the Council receives recommendations and advice from the Budget Sub-Committee, a committee that reports to Finance & Strategy Committee, made up of the senior management of the University.

The Finance & Strategy Committee recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also has primary responsibility for governance issues and considers nominations for vacancies in the Council membership under the relevant Statute.

The Remuneration Committee determines the remuneration of the most senior academic and academic-related staff. The lay officers of Council separately review the salaries of the Vice-Chancellor and the Registrar and Secretary.

The Audit and Risk Management Committee meets three times a year, with the University's external and internal auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It also receives and considers reports from the HEFCE as they affect the University's business and monitors adherence to the regulatory requirements. Whilst senior managers attend meetings of the Audit and Risk Management Committee as necessary, they are not members of the Committee.

The Senate is the highest academic authority of the University. It is responsible for the promotion of academic work both in 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. It has 10 representatives on the University Council, each appointed for a two-year period.

Corporate Governance, Risk Management and Internal Control (continued)

The University Court is a formal body established under Charter and Statutes whose main function is to provide a forum for official receipt of the Annual Report and Financial Statements. It is also responsible for the formal appointment of the Chancellor, the Pro-Chancellors and the Treasurer. It has three lay representatives on the University Council, who each serve for a period of three years.

Members of Council are eligible for re-appointment for up to a further three years, other than those appointed by Senate.

Until the end of the 2001-02 year, the University had a Finance Committee and a Standing Committee of Council. From the start of the 2002-03 year, these were merged to form the Finance & Strategy Committee, to enable key members of Council to focus more closely on strategic matters relating to the development of the University. The Senior Staff Committee was renamed as the Remuneration Committee.

Risk Management and Internal Control

As the governing body of the University of Essex, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to it by 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 against material misstatement or loss.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. During the 2002-03 year, the Council expects to put procedures in place necessary to provide a full statement on internal control for the financial year 2002-03. This takes account of the time needed to fully embed the risk management process, and to ensure that it is robust.

The University has undertaken the following actions to initiate its risk management strategy:

- drafted a risk management strategy and a risk management policy, adopted by Council in July 2002, thus bringing about more consistency in the way in which risks are treated;
- incorporated risk management considerations more fully into the corporate planning and decision-making processes of the University;
- identified a senior member of staff responsible for risk management, and the mechanism for advising senior management on developments;
- established a Business Continuity Working Group that identified the University's objectives and risks, and determined a control strategy for each of the significant risks;
- widened the terms of reference of the Audit and Risk Management Committee to include risk management;
- requested the Audit and Risk Management Committee to familiarise itself with the requirements of risk management, and to ensure that appropriate work is undertaken;
- arranged for the internal audit service to review progress made by the University with risk management, and to highlight areas that require further work;
- requested that the internal audit service adapt audit planning arrangements and the methodology and approach of the auditors, to ensure that internal audit activity conforms to the latest professional standards relating to risk management.

Corporate Governance, Risk Management and Internal Control (continued)

The Council calendar and agenda will enable risk management and internal control to be considered on a regular basis during the year so that there will be a full risk and control assessment before reporting on the year ending 31 July 2003. The Council receives a report from the chairman of the Audit and Risk Management Committee at each meeting, and an annual report concerning internal control.

In addition to the actions mentioned above, in the coming year the University plans to:

- introduce a programme of facilitated workshops to heighten risk awareness;
- develop the existing system of key performance and risk indicators;
- develop and maintain a University-wide risk register;
- arrange for reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects where relevant.

The University has appointed PKF, Chartered Accountants, to provide its internal audit service. PKF operates to standards defined in the HEFCE Audit Code of Practice and was last reviewed for effectiveness by the HEFCE Audit Service in July 1999. PKF submit regular reports, which include an independent opinion on the adequacy and effectiveness of the system of internal control in the areas under review, together with recommendations for improvement.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic departments and administrative sections;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit and Risk Management Committee and Council;
- a professional internal audit team whose annual programme is approved by the Audit and Risk Management Committee.

The Audit and Risk Management Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal control. The review is informed by the work of the internal audit service and those managers within the University who have responsibility for the development and maintenance of the internal control framework, supplemented by comments made by the external auditors in their management letter.

Responsibilities of the Council of the University of Essex

In accordance with the Royal Charter, the Council of the University is responsible for the administration and management of the affairs of the University and is required to present audited Financial Statements for each financial year.

The 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 undertakings and enable it to ensure that the Financial Statements are prepared in accordance with the Statement of Recommended Practice: Accounting in Higher Education Institutions and other relevant accounting standards. In addition, 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 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 of the surplus or deficit and cash flows for that 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, subject to any material departures disclosed and explained in the Financial Statements;
- Financial Statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation.

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.

Report of the Independent Auditors to the Council of the University of Essex

We have audited the Financial Statements on pages 12 to 34 which have been prepared under the historical cost convention as modified by the revaluation of certain assets and the accounting policies set out on pages 12 to 14.

Respective responsibilities of the Council and Auditors

As described on page 9, the Council is responsible for ensuring that Financial Statements are prepared. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. 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 circumstances of the University and its subsidiary undertakings and are 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 us 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:

1. The Financial Statements give a true and fair view of the state of the affairs of the University and the Group at 31 July 2002, and of the income and expenditure and cash flows of the University for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and with the University's Charter of Incorporation.
2. Income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University, have been applied for the purposes for which they were received.
3. Income has been applied in accordance with the statutes governing the University and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

SCRUTTON BLAND
Chartered Accountants and Registered Auditors

Sir Isaac's Walk
Colchester
CO1 1JL

2 December 2002

Report of the Independent Auditors to the Council of the University of Essex on Corporate Governance Matters

In addition to our audit of the Financial Statements, we have reviewed the statements on page 6 on the University's compliance with the Combined Code on Corporate Governance. The objective of our review is to draw attention to non-compliance with these paragraphs of the above Code.

We carried out our review in accordance with Bulletin 1995/1 'Disclosures relating to the Corporate Governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the University's system of internal financial control or its Corporate Governance procedures nor on the ability of the University to continue in operational existence.

Opinion

Based on enquiry of certain directors and officers of the University, and examination of relevant documents, in our opinion the statement on page 6 appropriately reflects the University's compliance with the other paragraphs of the Code specified for our review.

SCRUTTON BLAND
Chartered Accountants and Registered Auditors

Sir Isaac's Walk
Colchester
CO1 1JL

2 December 2002

Statement of Principal Accounting Policies and Estimation Techniques

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 and applicable Accounting Standards and Financial Reporting Standards. Comparative figures have been changed, where appropriate, so that the information is presented on a consistent basis.

Basis of Consolidation

The Financial Statements comprise the consolidated results of the University of Essex and its subsidiaries: W P Management Limited, Wivenhoe Technology Limited, and University of Essex Research Park Holdings Limited. These subsidiaries undertake activities which, for legal and commercial reasons, are more appropriately operated through limited companies. Their activities include conferences and services for a wide variety of commercial organisations and individuals, the acquisition, protection and licensing of intellectual property from the University and the holding of land pending its development as a Research Park. The companies covenant all taxable profits to the University.

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 7, and the Union's financial results are summarised in Note 33.

Recognition of Income

Income from HEFCE Recurrent Grants is included in full in each year. Grant paid over by the University to its partner colleges is shown gross, with payments recorded as other operating expenses (Note 7). Income from HEFCE Capital Grants and Grants for Specific Initiatives are included to the extent that expenditure is incurred during the year on the capital or revenue account.

Income from Specific and General Endowment Asset Investments, 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 income from short-term deposits and other investments is credited to the Income and Expenditure Account on a receivable basis.

Pension Schemes

Pension costs are assessed in accordance with the advice of an actuary 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.

Except where it has been prudent to recognise deficiencies over a shorter period, variations from regular costs are spread over the expected average remaining working life of members of the schemes after making suitable allowances for future withdrawals.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

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

Where the University's share of assets and liabilities within a defined benefit scheme cannot be determined, the scheme is treated as a defined contribution scheme.

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 and Endowment Asset Investments are included in the Balance Sheet at market value unless 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.

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 and government securities 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.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

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 depreciated over their expected useful lives of 50 years, except for certain buildings at the East 15 Acting School for which a 20-year depreciation policy had been adopted prior to transfer of the assets to the University.

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 life of the buildings.

Minor Works to buildings are depreciated over 20 years. This is a change to the techniques adopted for the 2000-01 year and earlier. It arises from a review of the fixed asset register which concluded that it was no longer appropriate to depreciate such assets over a 50 year period, since this was likely to exceed the useful life of the assets.

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 - five years;
- computer equipment - three years;
- equipment acquired for specific research projects - project life (generally three years).

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

Stocks

The stocks are stores for general maintenance, fuel, 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.

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
CONSOLIDATED INCOME AND
EXPENDITURE ACCOUNT FOR THE
YEAR ENDED 31 JULY 2002**

	Note	2001-02 £'000	2000-01 £'000
Income			
Funding Council Grants	1	23,078	20,916
Academic Fees and Support Grants	2	19,213	17,201
Research Grants and Contracts	3	10,376	11,050
Other Operating Income	4	14,649	13,421
Endowment and Investment Income Receivable	5	1,135	1,356
Total Income		<u>68,451</u>	<u>63,944</u>
Expenditure			
Staff Costs	6	41,217	37,966
Other Operating Expenses	7	22,565	21,455
Depreciation	9	1,892	1,671
Interest Payable	8	1,301	1,447
Total Expenditure	9	<u>66,975</u>	<u>62,539</u>
Surplus after Depreciation of Assets at Cost and before Tax		1,476	1,405
Taxation		0	0
Surplus after Depreciation of Assets at Cost and after Tax		<u>1,476</u>	<u>1,405</u>
Statement of Historical Cost Surplus for the year ended 31 July 2002			
Reported Surplus on Activities before and after Tax		1,476	1,405
Transferred from Revaluation Reserve		0	305
Historical Cost Surplus on Activities before and after Tax		<u>1,476</u>	<u>1,710</u>

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
BALANCE SHEET
AS AT 31 JULY 2002**

	Note	Consolidated		University	
		2002 £'000	2001 £'000	2002 £'000	2001 £'000
Fixed Assets					
Tangible Fixed Assets	10	52,789	52,318	52,744	52,249
Investments	11	777	1,406	18,094	1,373
		53,566	53,724	70,838	53,622
Endowment Asset Investments	12	8,771	10,627	8,771	10,627
Current Assets					
Stock and Stores in Hand		330	351	307	329
Debtors	13	5,384	4,386	5,229	4,198
Investments		9,013	12,342	9,013	12,342
Cash at Bank and in Hand		375	239	347	180
		15,102	17,318	14,896	17,049
Creditors: amounts falling due within one year	14	(10,026)	(10,622)	(9,820)	(10,336)
Net Current Assets		5,076	6,696	5,076	6,713
Total Assets less Current Liabilities		67,413	71,047	84,685	70,962
Creditors: amounts falling due after one year	15	(19,754)	(20,456)	(19,754)	(20,456)
Provisions for Liabilities and Charges	16	(615)	(881)	(615)	(881)
Net Assets		47,044	49,710	64,316	49,625
Deferred Capital Grants and Gifts	17	11,097	13,369	11,097	13,369
Endowments					
Specific	18	8,547	9,906	8,547	9,906
General	18	224	721	224	721
		8,771	10,627	8,771	10,627
Reserves					
Revaluation Reserve	19	129	143	129	143
General Reserve	20	27,047	25,571	44,319	25,486
		27,176	25,714	44,448	25,629
Total Funds		47,044	49,710	64,316	49,625

The Financial Statements on pages 12 to 34 were approved by Finance & Strategy Committee on 2 December 2002 and signed under delegated authority given by the University Council by:

PROFESSOR I. CREWE
Vice-Chancellor

D. LEWIS
Treasurer

A. CONNOLLY
Director of Finance

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
CONSOLIDATED CASH FLOW
STATEMENT FOR THE YEAR ENDED 31 JULY 2002**

	Note	2001-02 £'000	2000-01 £'000
Net Cash Inflow from Operating Activities	24	1,591	462
Returns on Investments and Servicing of Finance	25	(219)	51
Taxation		0	0
Capital Expenditure and Financial Investment	26	(2,669)	(2,010)
Cash Outflow before use of Liquid Resources and Financing		(1,297)	(1,497)
Management of Liquid Resources	29	3,329	(1,580)
Financing	27	(561)	963
(Decrease)/Increase in Cash	28	1,471	(2,114)
Reconciliation of Net Cash Flow to Movement in Net Debt			
(Decrease)/Increase in Cash in the period		1,471	(2,114)
Increase/(Decrease) in Liquid Resources		(3,329)	1,580
Changes in Net Debt resulting from Cash Flows		561	(963)
Movement in Net Debt in period		(1,297)	(1,497)
Net Debt at 1 August 2001		(10,251)	(8,754)
Net Debt at 31 July 2002	28	(11,548)	(10,251)

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
STATEMENT OF CONSOLIDATED TOTAL
RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2002**

	Note	2001-02 £'000	2000-01 £'000
Recognised Gains (Losses) relating to the year			
Surplus on Continuing Operations after depreciation of assets at cost, disposal of assets and Tax		1,476	1,405
(Depreciation) of Fixed Asset Investments	11	(14)	(77)
(Depreciation) of Endowment Asset Investments	18	(1,829)	(1,151)
Endowment Income released for year	18	(53)	(126)
New Endowments	18	26	46
Total Recognised Gains (Losses) relating to the year		<u>(394)</u>	<u>97</u>
Reconciliation			
Opening Reserves and Endowments		36,341	
Total Recognised Gains relating to the year		(394)	
Closing Reserves and Endowments		<u>35,947</u>	

**NOTES TO THE
FINANCIAL STATEMENTS**

	2001-02 £'000	2000-01 £'000
1. Funding Council Grants		
Recurrent (Teaching)	14,651	13,025
Recurrent (Research)	6,590	6,460
Recurrent (Other)	401	542
Special Initiatives	1,054	586
Deferred Capital Grants released in year - Buildings (Note 17):	382	303
	<u>23,078</u>	<u>20,916</u>
2. Academic Fees and Support Grants		
Full-time HE course fees:		
UK-domiciled students charged home fees	6,101	5,750
Non-UK domiciled students charged home fees	670	845
Students charged overseas and other fees	9,860	8,239
Part-time credit bearing HE course fees	558	493
Non-credit bearing course fees	1,841	1,807
Research Training Support Grants	183	67
	<u>19,213</u>	<u>17,201</u>
3. Research Grants and Contracts		
Research Councils	6,160	6,996
UK-based charities	883	840
UK central government, local authorities, health and hospital authorities	1,026	924
UK industry, commerce and public corporations	757	949
European Union government bodies	1,032	1,007
European Union other	65	28
Other overseas	207	198
Other sources	40	19
Deferred Capital Gifts released in year - Equipment (Note 17):	206	89
	<u>10,376</u>	<u>11,050</u>
4. Other Operating Income		
Other Services Rendered:		
Course Validation Fees	47	30
UK central government, local authorities, health and hospital authorities	234	146
UK industry, commerce and public corporations	281	314
European Union government bodies	4	3
European Union other	27	56
Other overseas	14	23
Other sources	148	143
Residences, Catering and Conferences	9,594	9,341
Deferred Capital Gifts released in year - Buildings (Note 17):	50	43
Day Nursery	637	613
Profit on disposal of fixed assets	858	326
Other income	2,755	2,383
	<u>14,649</u>	<u>13,421</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

2001-02 2000-01
£'000 £'000

5. Endowment and Investment Income Receivable

Transferred from Specific Endowments (Note 18)	411	439
Income from General Endowment Asset Investments (Note 18)	0	27
Income from Current Asset Investments	715	833
Income from Fixed Asset Investments	9	57
	1,135	1,356

6. Staff Costs

Wages and Salaries	34,859	32,074
Social Security Costs	2,440	2,353
Other Pension Costs	3,918	3,539
	41,217	37,966

Emoluments of the Vice-Chancellor for year to 31 July 2002	133	127
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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 rates as for other academic staff and amounted to £19,563 (2000-01 £18,695).

No higher paid member of staff received compensation for loss of office during the two years to 31 July 2002.

Remuneration of higher paid staff, excluding employer's pension contributions:	Number	Number
	of staff	of staff
£50,000-£59,999	37	24
£60,000-£69,999	5	4
£70,000-£79,999	3	1
	45	29

Average staff numbers by major category:

Academic and Teaching Fellow	436	408
Research Officer	104	99
Technical	75	75
Senior Administrative	93	90
Clerical and Secretarial	273	275
Other	863	577
	1,844	1,524

The increase in the Other category arises from the decision to give Graduate Teaching Assistants a contract of employment in place of the previous casual employment arrangements, whereby they were excluded from the staff numbers.

**NOTES TO THE
FINANCIAL STATEMENTS**

2001-02 2000-01
£'000 £'000

7. Other Operating Expenses

Residences, Catering and Conferences	3,275	3,203
Consumables and Services	8,764	9,387
Equipment	2,690	2,459
Books and Periodicals	1,159	1,210
Studentships and Scholarships	499	501
Heat, Light, Water and Power	589	651
Repairs and General Maintenance	1,582	1,599
Minor Works	380	441
Rates	159	178
Insurance	181	111
Grants to Students' Union	334	321
Audit Fees	40	37
Early Retirements and Severances	102	300
Payment of HEFCE Grant to Partner Institutions	1,147	130
Loss on Zero Dividend Preference Shares	240	0
Investment in ICENI Seedcorn Fund	300	0
Other Expenditure	1,124	927
	<u>22,565</u>	<u>21,455</u>

8. Interest Payable

Bank and other Loans wholly repayable within five years	8	19
Loans not wholly repayable within five years	1,293	1,428
	<u>1,301</u>	<u>1,447</u>

9. Analysis of 2001-02 Expenditure by Activity

	Staff Costs £'000	Other Operating Expenses £'000	Depreciation £'000	Interest Payable £'000	Total £'000	2000-01 £'000
Academic Departments and Centres	22,565	4,504	18	0	27,087	24,576
Academic Services	3,050	2,655	27	0	5,732	5,032
Research Grants and Contracts	4,776	3,685	205	0	8,666	9,182
Residences, Catering and Conferences	2,867	3,584	733	1,186	8,370	8,229
Premises	2,379	3,130	831	0	6,340	6,205
Administration	3,383	1,436	71	5	4,895	4,545
Other Services Rendered	197	372	0	0	569	367
General Educational Expenditure	501	1,947	0	81	2,529	1,692
Student and Staff Facilities	1,314	664	7	29	2,014	1,907
Early Retirements and Severances	0	102	0	0	102	300
Other Expenses	185	486	0	0	671	504
Total per Income and Expenditure Account	<u>41,217</u>	<u>22,565</u>	<u>1,892</u>	<u>1,301</u>	<u>66,975</u>	<u>62,539</u>

The depreciation charge has been funded by:
Deferred Capital Grants and Gifts Released (Note 17)

638
<u>1,254</u>
<u>1,892</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

10. Tangible Assets

	University Land and Buildings Freehold £'000	University Land and Buildings Leasehold £'000	University Equipment £'000	University Total £'000	Companies Equipment £'000	Consolidate Total £'000
Cost						
At 1 August 2001	60,254	493	2,225	62,972	190	63,162
Additions	5,483	0	418	5,901	5	5,906
Disposals	(906)	0	0	(906)	0	(906)
Assets written down	(3,814)	0	0	(3,814)	0	(3,814)
At 31 July 2002	61,017	493	2,643	64,153	195	64,348
Depreciation						
At 1 August 2001	8,972	181	1,570	10,723	121	10,844
Charge for Year	1,424	14	425	1,863	29	1,892
Disposals	(161)	0	0	(161)	0	(161)
Assets written down	(1,016)	0	0	(1,016)	0	(1,016)
At 31 July 2002	9,219	195	1,995	11,409	150	11,559
Net Book Value						
At 31 July 2002	51,798	298	648	52,744	45	52,789
At 1 August 2001	51,282	312	655	52,249	69	52,318

Additions to University Land and Buildings in the year included expenditure of £2.4m on Building 2001, £0.4m on Residences (2000-01 £1.4m) and £2.7m on other building work (2000-01 £1.7m). Leasehold land and buildings are those acquired from East 15 Acting School Ltd.

Disposals in the year relate to the sale of off-campus student houses (£0.9m). Assets with a historic cost of £3.8m (Net Book Value £2.8m) were written down against matching deferred capital grants (Note 17).

11. Investments

	Consolidated		University	
	2001-02 £'000	2000-01 £'000	2001-02 £'000	2000-01 £'000
At 1 August 2001	1,406	2,363	1,373	2,330
Additions	0	902	17,350	902
Disposal of Investments	(398)	(1,782)	(398)	(1,782)
Loss on Disposal of Investments	(156)	(102)	(156)	(102)
Revaluation Reserve	(14)	25	(14)	25
Diminution in Value of Investments	(61)	0	(61)	0
At 31 July 2002	777	1,406	18,094	1,373
Comprising:				
Treasury Gilts	426	417	426	417
Zero Dividend Preference Shares	271	909	271	909
Research Park	0	0	17,350	0
Other Investments	80	80	47	47
	777	1,406	18,094	1,373

The University has established a wholly-owned subsidiary company, University of Essex Research Park Holdings Ltd. The company has issued the University £17.35m of redeemable shares following the transfer to the company of land designated for the development of a Research Park.

**NOTES TO THE
FINANCIAL STATEMENTS**

12. Endowment Asset Investments

	2001-02	2000-01
	£'000	£'000
Balance at 1 August 2001	10,627	11,858
Additions	26	46
Depreciation	(1,829)	(1,151)
Excess of Expenditure over Income	(53)	(126)
At 31 July 2002	<u>8,771</u>	<u>10,627</u>
Represented by:		
Fixed Interest Stocks	1,020	1,027
Equities	7,252	9,054
Bank Balances and Deposits	499	546
Total Endowment Asset Investments at Market Value	<u>8,771</u>	<u>10,627</u>
Total Endowment Asset Investments at Cost	<u>9,938</u>	<u>9,919</u>

13. Debtors: Amounts falling due within one year

	Consolidated		University	
	2001-02	2000-01	2001-02	2000-01
	£'000	£'000	£'000	£'000
Trade Debtors	2,212	2,104	2,055	2,139
Student Fees	247	259	247	259
Research Debtors	1,870	1,676	1,870	1,676
Prepayments and Accrued Income	217	347	217	114
Amount owed by Students' Union within one year	107	0	107	0
Amounts owed by Subsidiary Undertakings	0	0	2	10
Total amounts falling due within one year	<u>4,653</u>	4,386	<u>4,498</u>	4,198
Long-term Debtor - Students' Union	731	0	731	0
	<u>5,384</u>	<u>4,386</u>	<u>5,229</u>	<u>4,198</u>

14. Creditors: Amounts falling due within one year

Mortgages, Leases and Unsecured Loans	1,160	1,019	1,159	1,019
Payments Received on Account	1,857	964	1,857	964
Research Creditors	1,388	1,911	1,388	1,911
Trade Creditors	2,159	1,240	2,152	1,217
Amounts owed to Subsidiary Undertakings	0	0	107	156
Social Security and Other Taxation Payable	837	904	822	893
Accruals	2,603	3,227	2,335	2,840
Overdraft	22	1,357	0	1,336
	<u>10,026</u>	<u>10,622</u>	<u>9,820</u>	<u>10,336</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

15. Creditors: Amounts falling due after more than one year

	Consolidated and University	
	2001-02	2000-01
	£'000	£'000
Mortgages secured on property:		
repayable between one and two years	1,862	1,861
repayable between two and five years	1,862	1,838
repayable after five years	15,839	16,539
Leases and Unsecured Loans:		
repayable between one and two years	31	40
repayable between two and five years	35	33
repayable after five years	125	145
	<u>19,754</u>	<u>20,456</u>

Mortgages of £19.6m (£20.2m 2000-01) secured on the freehold property of the University are repayable by instalments falling due between 1 August 2002 and 31 July 2026, at an average interest rate of 5.25% for the 2002-03 financial year. This forecast of interest rates is based on current LIBOR of 3.94% and the banks' margin (typically 0.5%), taking into account the effect of various swap rates.

During the year, the University took out a number of interest rate swaps as part of a revised debt management policy to ensure that circa 70% of outstanding debt is covered by fixed interest rates. This policy has been implemented because of the University's increased exposure to interest rate movements as a result of its intention to take out a new loan of £27m to fund the purchase of the University Quays student residences, and a contribution of £2m to South East Essex College towards the capital cost of a new college building.

The University has five interest rate swaps with rates ranging from 4.71% to 5.62%, covering periods between seven and 25 years. Three of the swaps are current, and two commence in August 2003 to coincide with the expected drawdown of the new loan for University Quays.

16. Provisions for Liabilities and Charges

	Consolidated and University		
	Future Severances	Early Retirement	Total
	£'000	£'000	£'000
At 1 August 2001	208	673	881
Utilised in Year	(208)	(74)	(282)
Transfer from Income & Expenditure Account	0	16	16
At 31 July 2002	<u>0</u>	<u>615</u>	<u>615</u>

The Early Retirement provision has been set up to meet enhanced unfunded pension benefits for former staff who are members of the Essex County Council Superannuation Scheme. The provision was calculated on an average life expectancy of 13 years from 1994. Provision has also been made to meet a past service deficiency, and following the outcome of the actuarial review of the Scheme in March 2001, this is being released over a three-year period from April 2002. The future severances provision was released entirely during the year.

NOTES TO THE
FINANCIAL STATEMENTS

17. Deferred Capital Grants and Gifts

	Consolidated and University		
	Funding Council £'000	Other Grants & Gifts £'000	Total £'000
At 1 August 2001:			
Buildings	11,608	1,635	13,243
Equipment	0	126	126
	<u>11,608</u>	<u>1,761</u>	<u>13,369</u>
Receivable:			
Buildings	809	0	809
Equipment	0	350	350
	<u>809</u>	<u>350</u>	<u>1,159</u>
Released to Income and Expenditure Account (Notes 1, 3 and 4):			
Buildings	(382)	(50)	(432)
Equipment	0	(206)	(206)
	<u>(2,793)</u>	<u>0</u>	<u>(2,793)</u>
	<u>(3,175)</u>	<u>(256)</u>	<u>(3,431)</u>
Released against matching fixed assets (Note 10)			
	<u>(2,793)</u>	<u>0</u>	<u>(2,793)</u>
	<u>(3,175)</u>	<u>(256)</u>	<u>(3,431)</u>
At 31 July 2002:			
Buildings	9,242	1,585	10,827
Equipment	0	270	270
	<u>9,242</u>	<u>1,855</u>	<u>11,097</u>

During the year deferred capital grants amounting to £2.8m were released against matching fixed assets.

18. Endowments

	Consolidated and University		
	Specific £'000	General £'000	Total £'000
At 1 August 2001	9,906	721	10,627
Additions	26	0	26
Depreciation of Endowment Asset Investments	(1,719)	(110)	(1,829)
Income for Year	332	26	358
Transferred between Specific and General Endowments	413	(413)	0
Transferred to Income and Expenditure Account (Note 5)	(411)	0	(411)
At 31 July 2002	<u>8,547</u>	<u>224</u>	<u>8,771</u>
Representing:			
Research Endowment Fund	6,549	0	6,549
Other Specific Endowments	1,998	0	1,998
Other General Endowments	0	224	224
	<u>8,547</u>	<u>224</u>	<u>8,771</u>

During the year, the Foundation Research and Development Fund was transferred to the Research Endowment Fund.

19. Revaluation Reserve

	Consolidated and University £'000
At 1 August 2001	143
Revaluation in Year	9
Released to Income and Expenditure	(23)
At 31 July 2002	<u>129</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

20. General Reserve

	Consolidated £'000	University £'000
Balance at 1 August 2001	25,571	25,486
Surplus after depreciation of assets at historical cost and after tax	<u>1,476</u>	<u>18,833</u>
Balance at 31 July 2002	<u><u>27,047</u></u>	<u><u>44,319</u></u>

Included within the University surplus for the year is £17,350,000 which resulted from the transfer of land with nil value between the University and a wholly-owned subsidiary company, University of Essex Research Park Holdings Ltd. This transfer is explained further in Note 31.

21. Post Balance Sheet Events

By 30 September 2002, the Market Value of the Investments shown at Notes 11 and 12 had decreased by an average of 8.5% compared to 31 July 2002, due to the continuing volatility in the Stock Market. These Investments are held for the long term and the present decline in value is unlikely to have any adverse impact on the University's liquidity or financial strength.

22. Contingent Liability

Past decisions by the European Court of Justice in relation to part-time employees may lead to a liability for pension provision of UK employers, including the University. The implications of this decision are, however, unclear and clarification is awaited from the UK Courts.

23. Capital Commitments

As at 31 July 2002, the University was committed to £2.4m capital expenditure on new buildings (£4.9m 2000-01) and £0.1m on refurbishment projects (£0.8m 2000-01).

In addition, the University was committed to £25.7m capital expenditure on the new University Quays student residences.

24. Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities

	Consolidated 2001-02 £'000	2000-01 £'000
Surplus before tax	1,476	1,405
Depreciation (Note 10)	1,892	1,671
Deferred Capital Grants Released to Income (Note 17)	(638)	(435)
Release from Revaluation Reserve (Note 19)	(23)	0
Investment Income (Note 5)	(1,135)	(1,357)
Profit on Sale of Tangible Fixed Assets (Note 4)	(858)	(326)
Interest Payable (Note 8)	1,301	1,447
Loss on Sale of Fixed Asset Investments	240	0
(Increase)/Decrease in Stocks	21	(36)
(Increase)/Decrease in Debtors	(998)	(1,854)
(Decrease)/Increase in Creditors	579	(85)
(Decrease)/Increase in Provisions	(266)	32
Net Cash Inflow from Operating Activities	<u><u>1,591</u></u>	<u><u>462</u></u>

**NOTES TO THE
FINANCIAL STATEMENTS**

Consolidated

2001-02 2000-01
£'000 £'000

25. Returns on Investment and Servicing of Finance

Income from Endowments	358	340
Income from Fixed Asset Investments	9	57
Income from Short-term Investments	715	871
Interest Paid	(1,301)	(1,217)
	<u>(219)</u>	<u>51</u>

26. Capital Expenditure and Financial Investment

Tangible Assets Acquired (Note 10)	(5,906)	(4,159)
Fixed Asset Investments Acquired (Note 11)	0	(902)
Total Fixed and Endowment Assets Acquired	(5,906)	(5,061)
Receipts from Sale of Tangible Assets	1,654	836
Receipts from Sale of Fixed Asset Investments	398	1,781
Deferred Capital Grants Received (Note 17)	1,159	388
Endowments Received (Note 18)	26	46
	<u>(2,669)</u>	<u>(2,010)</u>

27. Analysis of Changes in Consolidated Financing

Balances at 1 August 2001	21,475	20,512
New Liabilities/Loans	285	2,049
Capital Repayments	(846)	(1,086)
Balances at 31 July 2002	<u>20,914</u>	<u>21,475</u>

28. Analysis of Changes in Net Debt

	At 31 July 2001 £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2002 £'000
Cash at Bank and in Hand	239	136	0	375
Overdraft	(1,357)	1,335	0	(22)
	(1,118)	1,471	0	353
Liquid Resources	<u>12,342</u>	<u>(3,329)</u>	<u>0</u>	<u>9,013</u>
	11,224	(1,858)	0	9,366
Debt due within one year	(1,019)	846	(987)	(1,160)
Debt due after one year	(20,456)	(285)	987	(19,754)
	<u>(10,251)</u>	<u>(1,297)</u>	<u>0</u>	<u>(11,548)</u>

29. Management of Liquid Resources

	2001-02	2000-01
	£'000	£'000
(Increase)/Decrease on short term deposits	<u>3,329</u>	<u>(1,580)</u>

30. Pension Schemes

The University has three principal pension schemes for employees. These are the Universities Superannuation Scheme (USS) for academic and related staff, 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.

USS and LGPS are defined benefit schemes which are externally funded and valued every three years using the projected unit method. UEPS is also a defined benefits scheme with the initial rates of contribution determined by the University and staff nominated Trustees on the advice of the scheme actuary. The initial scheme valuation was made at the end of the first year of operation in July 1998.

LGPS became a closed scheme in August 1997 and subsequently all non-academic and related staff who are not members of a pension scheme may join the UEPS.

All three schemes are contracted out of the State Earnings-Related Pension Scheme.

Universities Superannuation Scheme

This is a defined benefit scheme which is externally funded and valued every three years using the projected unit method.

The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the Income and Expenditure Account is therefore equal to the contributions payable to the scheme for the year.

The latest complete actuarial valuation of the scheme was at 31 March 1999. 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) and the rates of increase in salary and pensions. In relation to the past service liabilities, the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.6% per annum and pensions would increase by 2.6% per annum. In relation to the future service liabilities, it was assumed that the valuation rate of interest would be 5.5% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.5% per annum and pensions would increase by 2.5% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £18,870 million (including an estimated £55 million in respect of outstanding bulk transfer payments due) and the value of the past service liabilities was £17,427 million, leaving a surplus of assets of £1,443 million. The assets therefore were sufficient to cover 108% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The contribution rate required from institutions for future service benefits alone at the date of valuation was 16.3% of salaries, but it was agreed that the rate will be maintained at 14% of salaries. To fund this reduction of 2.3% for the period of 11 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £561 million of the surplus. It was also agreed, following the valuation, that £201 million of the surplus would be used to fund certain benefit improvements. This left a past service surplus of £681 million (including the Supplementary Section) to be carried forward.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2002, when the above rates will be reviewed.

The total pension cost for the University was £3.034 million (2000-01 £2.731 million).

**NOTES TO THE
FINANCIAL STATEMENTS**

Local Government Pension Scheme

This is a defined benefit scheme which is externally funded and valued every three years using the projected unit method.

The assets in the scheme and the expected rate of return

	Long-term rate of return expected at 31-Jul-02 %	Value at 31-Jul-02 £'000	Long-term rate of return expected at 31-Jul-01 %	Value at 31-Jul-01 £'000
Equities	8.00	1,051,000	7.25	1,282,000
Gilts	4.90	68,000	5.00	35,000
Bonds	5.90	241,000	5.90	258,000
Property	5.90	170,000	5.90	168,000
Cash	4.50	67,000	5.00	88,000
Total market value of assets		<u>1,597,000</u>		<u>1,831,000</u>
University of Essex estimated asset share		19,260		22,103
Present value of scheme liabilities		(29,070)		(27,111)
Surplus/(Deficit) in the scheme		<u>(9,810)</u>		<u>(5,008)</u>

Actuarial Assumptions

A full actuarial valuation was carried out on 31 March 2001, and updated to 31 July 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-02 %	At 31-Jul-01 %
Rate of increase in salaries	4.30	4.30
Rate of increase in pension payments	2.50	2.50
Expected return on assets	7.20	6.80
Discount rate for liabilities	5.90	5.90
Inflation assumptions	2.50	2.50

Movements in surplus (deficit) during the year

	2001-02 £'000
Surplus/(Deficit) in scheme at the beginning of the year	(5,008)
Movements in the year:	
Current service costs	(967)
Contributions	633
Past service costs	0
Other finance income	(69)
Actuarial losses	(4,399)
Recoverable Surplus/(Deficit) in scheme at the end of the year	<u>(9,810)</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

The Local Government Pension Scheme (continued)

History of Experienced Gains and Losses	2001-02 £'000
Difference between the expected and actual return on scheme assets	
Amount	(4,400)
Percentage of the assets of the scheme	22.85%
Experienced gains (losses) arising on the scheme liabilities	
Amount	1
Percentage of the liabilities of the scheme	0.00%
Total amount recognised in the Statement of Total Recognised Gains and Losses	
Amount	(4,399)
Percentage of the present value of the liabilities of the scheme	15.13%

Analysis of amounts that would be charged to operating profit under full adoption of FRS 17

	2001-02 £'000
Current service costs	967
Past service costs	0
Total operating charge	<u>967</u>

Analysis of amounts that would be credited to other finance income under full adoption of FRS 17

	2001-02 £'000
Expected return on pension scheme assets	1,505
Interest on pension liabilities	(1,574)
Net charge	<u>(69)</u>

Analysis of amounts that would go through the Statement of Total Recognised Gains and Losses under full adoption of FRS 17

	2001-02 £'000
Actual return less expected return on pension scheme assets	(4,400)
Experience gains and losses arising on the scheme liabilities	1
Changes in assumptions underlying the present value of scheme liabilities	0
Actuarial gain/(loss) recognised in STRGL	<u>(4,399)</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

The University of Essex Pension Scheme

This is a defined benefit scheme. The initial scheme valuation was made in July 1998 at the end of the first year of operation.

The assets in the scheme and the expected rate of return

	Long-term rate of return expected at 31-Jul-02 %	Value at 31-Jul-02 £'000	Long-term rate of return expected at 31-Jul-01 %	Value at 31-Jul-01 £'000
Equities	7.5	1,114	7.5	659
Cash	4.0	75	4.0	98
Total market value of assets		<u>1,189</u>		<u>757</u>
Present value of scheme liabilities		1,474		990
Surplus/(Deficit) in the scheme		<u>(285)</u>		<u>(233)</u>

Actuarial Assumptions

A full actuarial valuation was carried out on 31 March 2001, and updated to 31 July 2002 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-02 %	At 31-Jul-01 %
Rate of increase in salaries	3.6	3.7
Rate of increase in pension payments	2.6	2.7
Expected return on assets	7.2	-
Discount rate for liabilities	6.0	5.8
Inflation assumptions	2.6	2.7

Movements in Surplus/(Deficit) during the year

	2001-02 £'000	2000-01 £'000
Surplus/(Deficit) in scheme at the beginning of the year	(233)	15
Movements in the year:		
Current service costs	(383)	(302)
Contributions	398	252
Past service costs	0	0
Other finance income	14	(61)
Net return on assets	1	(2)
Actuarial losses	(82)	(135)
Recoverable Surplus/(Deficit) in scheme at the end of the year	<u>(285)</u>	<u>(233)</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

The University of Essex Pension Scheme (continued)

History of Experienced Gains and Losses	2001-02 £'000	2000-01 £'000
Difference between the expected and actual return on scheme assets		
Amount	312	152
Percentage of the assets of the scheme	26.2%	20.1%
Experienced gains and losses on scheme liabilities		
Amount	104	146
Percentage of the liabilities of the scheme	7.1%	14.7%
Total amount recognised in the Statement of Total Recognised Gains and Losses		
Amount	(81)	(135)
Percentage of the present value of the liabilities of the scheme	(5.6%)	(13.6%)

Analysis of amounts that would be charged to operating profit under full adoption of FRS 17

	2001-02 £'000	2000-01 £'000
Current service costs	383	302
Past service costs	0	0
Total operating charge	383	302

Analysis of amounts that would be credited to other finance income under full adoption of FRS 17

	2001-02 £'000	2000-01 £'000
Expected return on pension scheme assets	77	43
Interest on pension liabilities	(76)	(45)
Net return	1	(2)

Analysis of amounts that would go through the Statement of Total Recognised Gains and Losses under full adoption of FRS 17

	2001-02 £'000	2000-01 £'000
Actual return less expected return on pension scheme assets	(312)	(152)
Experience of gains and losses arising on the scheme liabilities	104	146
Changes in assumptions underlying the present value of scheme liabilities	127	(129)
Actuarial Gain/(Loss) recognised in the Statement of Total Recognised Gains and Losses	(81)	(135)

**NOTES TO THE
FINANCIAL STATEMENTS**

31. University Companies

The University owns 100% of the share capital of five companies:

<u>Company</u>	<u>Investment</u>	<u>Activity</u>
Wivenhoe Technology Ltd	£2	Acquisition, protection and licensing of intellectual property from the University
W P Management Ltd	£2	Management of commercial activities at the University
University of Essex Research Park Holdings Ltd	£17,350,002	Holding land on behalf of the University for development as a Research Park.
University of Essex Environmental Facilities Ltd	£100,000	Dormant throughout the year
Wivenhoe Building Management Services Ltd	£2	Dormant throughout the year

The University has made significant progress during the year by beginning to realise a long-held ambition to establish a 40-acre research park on campus. On 16 July 2002, a joint venture agreement was signed with Carisbrooke Alliance Ltd, establishing the Carisbrooke-Essex Partnership. The University has transferred 40 acres of land into a wholly-owned subsidiary company, University of Essex Research Park Holdings Ltd, in exchange for £17,350,000 of redeemable preference shares. The company itself established a wholly-owned subsidiary, University of Essex Research Park Ltd, to act as the main agent in the Carisbrooke-Essex Partnership. Apart from the transfer of land in exchange for shares, there were no transactions in this company, or the Partnership, during the year.

In addition, the University made an investment of £300,000 in the ICENI Seed Corn Fund, a Limited Liability Partnership established with other organisations to provide seedcorn funding and investment for the commercial development of research. The cost of this investment was charged to revenue.

Wivenhoe Technology Ltd owns a percentage of the share capital of the following companies:

<u>Company</u>	<u>Investment</u>	<u>Activity</u>
Immunoporation Ltd (36%)	£36	Developing cell technology
ilotron Ltd (4.6%)	-	Developing optical switching
Technologica Ltd (70%)	£350	Development and manufacture of instruments to measure fluorescence from plant leaves.
Nesstar Ltd (50%)	£500	Development of kindred data software.

The investment in Immunoporation Ltd, a company incorporated in England, represents 36% of the issued share capital of Ordinary £0.01 shares. Financial statements for the year ended 30 June 2002 show that this company made a retained loss of £21,701 (2000-01 loss £7,566), and had aggregate capital and reserves showing a deficit of £31,823 (2000-01 £27,419).

The company also owned 55,560 shares (4.6%) in ilotron Ltd, a company exploiting University research in the area of optical networking. It was incorporated in January 2000 with £6,000,000 of initial investment by 3i plc. The shares in ilotron Ltd were acquired at nil cost. Due to the severe downturn in the Telecommunications market, ilotron Ltd went into receivership on 1 June 2001, owing the University £60,500. This was written off in the 2000-01 financial year.

Technologica Ltd was incorporated on 15 October 2001, and the the University's share of the results for the period to 31 July 2002 have been consolidated into these Financial Statements. The University has loaned £20,000 to Technologica via Wivenhoe Technology Ltd.

Wivenhoe Technology Ltd has a 50% share in Nesstar Ltd, a company established jointly between the UK Data Archive (based at the University) and the Norwegian Data Archive to develop and market an integrated set of software tools to assist the location, use and presentation of socio-economic and kindred data. Nesstar Ltd was incorporated on 24 April 2001. The results to 30 June 2002 are not material, and have not been consolidated into these Financial Statements.

**NOTES TO THE
FINANCIAL STATEMENTS**

32. Hardship Funds

	University	
	2001-02	2000-01
	£'000	£'000
Funding Council Grants	295	284
Interest Earned	2	3
	<u>297</u>	<u>287</u>
Disbursed to Students	284	287
Balance unspent at 31 July 2002	<u>13</u>	<u>0</u>

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

33. Related Party Transactions

The related parties of the University are the wholly and partially owned subsidiary undertakings (listed in Note 31 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 2002 the University paid the Union a grant of £333,650, (2000-01: £320,900) provided accommodation free of rent and loaned the Union £911,527 to meet the cost of bar refurbishment and extensions. The loan bears a fixed rate of interest of 7%, and is repayable over 10 years. The amount of loan outstanding at 31 July 2002 was £838,875 (Note 13).

For the 2001-02 year, the Union's Income and Expenditure account shows the following:

	2001-02	2000-01
	£'000	£'000
Income	661	855
Expenditure	888	736
Operating (deficit)/surplus before transfers from/(to) reserves	<u>(227)</u>	<u>119</u>
Transfers from/(to) reserves	110	(84)
(Deficit)/surplus after transfers from/(to) reserves	<u>(117)</u>	<u>35</u>

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.

Ex Officio Members

Chancellor	Lord Nolan
Pro-Chancellors	Mr Tim Melville-Ross (Chair of Council) Mr Christopher Pertwee (Vice-Chair of Council) Mr Alan Jordan
Vice-Chancellor	Professor Ivor Crewe
Treasurer	Mr Derek Lewis
Pro-Vice-Chancellors	Professor Geoffrey Crossick Professor Rob Massara Professor Jim Richmond Professor Michael Sherer

Appointed Members

Mr John Burrow
Sir Robin Mountfield
Mrs Nicola Colston

Co-opted Members

Miss Erika Clarke
Dr Tony Elston (from 1 April 2002)
Mr Peter Glossop
Mrs Daphne Gould
Mr Colin Harker
Mr Alan Hayman
Mr Michael Hughes
Lord Newton
Mr Brian Owen
Mr Peter Rainbird

Elected Members

Professor Joan Busfield (from 1 January 2002)
Professor Andrew Downton
Professor Sajal Lahiri
Professor Jules Lubbock
Professor Ray Meddis (until 31 December 2001)
Professor John Scott
Professor Stephen Smith
Dr Sam Steel
Professor Edward Tsang
Professor Raymond Turner
Professor Jane Wright

Students' Union Members

President of Students' Union	Ms Gozi Nwachukwa
Vice-President (Finance & Services) of Students' Union	Ms Claire O'Sullivan

Observers

East 15 Acting School	Mr Gordon Hewlett
Two members of non-academic staff:	Sarah Manning-Press Michael Sansom