

Financial Statements 2002-03

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Advisors to the University

Bankers

Lloyds TSB plc

Solicitors

Birkett Long
Mills & Reeve

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 (Special Risks) Limited

Treasurers' Report

Introduction

Last year I reported that the financial outlook for 2002-03 was brighter than in previous years. This reflected the success of the University's recruitment programme for overseas students, combined with an equally encouraging increase in UK undergraduate students. The results below bear out those expectations, with a 16% increase in turnover and a significant improvement in the surplus for the year. Of course there are very many other reasons why the University returned such strong financial results in 2002-03 and my report can only touch on the key factors that have contributed to this success.

Results for the Year

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

	2002-03	2001-02
	£000	£000
Income	78,282	67,593
Expenditure	74,968	66,735
Surplus for the Year before Exceptional Items	3,314	858
Profit on the Sale of Fixed Assets	-	858
Loss on the Sale of Investments	-	(240)
Surplus for the Year	3,314	1,476

For the first time in many years, the University has not had to rely on profits from the sale of surplus properties to augment its surplus for the year. This is a welcome development as this source of income will no longer be available with the completion of the disposal programme in 2003-04.

There are four main contributors to the financial success enjoyed by the University in 2002-03.

The first arises from strong growth in demand from overseas students that I mentioned in my introduction. Income from overseas students who pay full fees increased by 40% over the year, to stand at nearly £14m. In the last four years income from overseas students has doubled, reflecting both the University's strong reputation abroad and new opportunities, particularly in China and South Asia.

Intake of home/EU students in 2002-03 increased by 5% at both undergraduate and postgraduate level. To ensure that the University is able to deliver a high quality teaching experience to home, EU and overseas students, we expect to stabilise the proportion of our students from overseas at broadly the level achieved in 2002-03.

The second driver behind the improved surplus for the year was the success in the 2001 Research Assessment Exercise (RAE) which led to an increase in our Funding Council Research Grant of over £1m or 16%. This increase is secured until the outcome of the next RAE expected in 2007-08, indicating the importance of a strong RAE performance in maintaining the financial strength of the University, as well underpinning its considerable reputation for research.

Treasurers' Report (continued)

Another aspect of research made a major contribution to our improved financial performance. Income from research grants and contracts increased by nearly £3m or 28%, to stand at over £13m. This income stream comprises many projects that are hard won in a fiercely competitive environment. Part of the growth is due to the inclusion of the first full year of research activity of 'Chimera', a research team based in Ipswich's Adastral Park, acquired from BT Exact Technologies Ltd in late 2001-02. The proportion of indirect research costs that were reimbursed showed an encouraging trend – up from 16.5% in the prior year to 19.7%. Increased income from industrial and commercial sponsors, who generally pay a more economic price for the research they commission, and a reduction in the proportion of income from charities, who typically pay little or nothing towards indirect costs, accounted for this improvement.

Residences, Catering and Conferences made a significant contribution to the University's financial health, with an 8% increase in turnover to over £10m combined with another improvement in margin from 12.8% to 14.8%. This source of income should maintain its growth in future years as new student residential stock comes on line. However, I expect the financial margin to decline as the re-investment needs of the existing stock increases.

Capital Projects

Capital expenditure during the year amounted to £30.6m (£5.9m in 2001-02). Two major projects were completed during the year and two other major projects are well underway.

University Quays, providing 767 bed spaces was completed on time in August 2003. This £26m development on newly acquired land adds to the University's Colchester campus. Fronting the River Colne it provides an impressive addition to the University's student facilities while contributing to the regeneration of the Hythe area of Colchester.

A £2.6m extension to Biological Sciences was completed in May 2003 and this has enabled the relocation of the entire Department onto a single site at the heart of the Colchester campus and has freed up space at the John Tabor Laboratories to develop high quality facilities for continuing professional development programmes.

There are two major projects currently under construction. The Network Centre is making good progress and will provide new accommodation to enable the co-location of Computer Science and Electronic Systems Engineering. Completion is expected in May 2004 at a total cost of over £6m.

The second major project is one in which the University has an important supporting role. South East Essex College (SEEC) in Southend is currently constructing a new £52m campus, of which the University is providing £4m (£2m of which is a capital grant from the Funding Council), to house the higher education students being taught under the auspices of the Partnership that the University has established with SEEC. I report on some further exciting developments in Southend below.

Cash Flow

Cash inflow from operating activities has improved to £3.8m (£1.6m in 2001-02). 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 £450k. This will be a continuing trend for the next few years.

Treasurers' Report (continued)

The University intends to finance the University Quays project and its contribution to the SEEC project by borrowing £27m. The loan with Lloyds TSB plc is expected to be drawn down in November 2003. The Financial Statements for 2002-03 reflect the substance of the University's effective commitment to acquire the freehold of University Quays as at 31 July 2003 by showing the property as an asset in the Balance Sheet, matched by a long-term creditor for the purchase price to be paid at a later date. When this loan is drawn down, the University's total debt will stand at £46.9m while cash balances stand at £8.9m. The interest rates on 64% of the University's debt is effectively fixed through a number of fixed interest rate swaps, providing a high degree of protection from any future adverse movement in interest rates. The University's objective is to achieve fixed interest rate coverage of 70% of total debt and this will be achieved over the next few years.

Investment Performance

The University places its endowment investments in Common Investment Funds, a type of unit trust for charities, in both equities and fixed interest funds. The University's two equity fund managers returned -5.7% and -9.8% over the year respectively, compared with the FTSE All Share Index of -9.5% for the same period. Over the last five years, the two managers returned -1.1% and -1.0% respectively, compared to -3.5% on the FTSE All Share Index. The University's fixed interest rate fund returned +9.8% over the last 12 months compared to the Government All Stocks Index of +9.2%. The comparative figures for the last five years are a return of +7.9% compared to the +7.0% on the Index.

Pension Funds

The University offers three defined-benefit pension schemes to its staff. Most academic and related staff are in the national Universities Superannuation Scheme (USS). However, support staff who chose to join a pension scheme belong to either the Essex County Council Local Government Pension Scheme (LGPS) – which was closed to new entrants in 1997, or to the University's own pension scheme (UEPS) – which opened its doors to new entrants in 1997. Under recent accounting standards we are rightly obliged to disclose the size of the pension fund deficits that the University underwrites. These are set out in Note 30 of the Financial Statements. They show that the portion of the LGPS Fund deficit attributable to the University had increased from £9.8m to £12.9m between balance sheet dates, while the deficit in UEPS had increased from £285k to £754k over the same period. This is not unexpected, although I hope that we have seen the worst and that the financial health of these funds will improve in future.

Future Developments

The University has three major capital projects on the drawing board which will be starting on campus over the coming 12 months.

The first relates to a new £5m Lecture Hall complex, providing much needed teaching capacity to accommodate recent growth in student numbers as well as space for major events. The University has expressly set itself the objective of building a high quality, flexible, multi-functional and architecturally impressive building to reflect the landmark nature of this project, both in terms of its location but also as celebration as the University approaches its 40th anniversary.

Following the award of a further £5.9m under the Funding Council's Science and Research Investment Fund (SRIF) initiative, the University plans to build a new Social Science centre, to house its two major empirically-based research and research services units – the Institute for Social and Economic Research and the UK Data Archive. This will provide much needed improvement in the quality of their accommodation, for what are not only significant income

Treasurers' Report (continued)

generators for the University but units that also add substantially to the University's internationally recognised research profile.

Secondly, design work has already commenced on the next phase of student residences for 650 bedrooms located adjacent to the University Quays, creating the hub of a student village.

Aside from these there is one other major project, soon to start on site, which will have a very significant impact on the future direction of the University. The University plans to establish a new University campus in Southend, adjacent to the new South East Essex College (SEEC) campus. So far capital grants totalling £18m have been secured from the East of England Development Agency (EEDA), to finance land acquisition, and from the Office of the Deputy Prime Minister via the Thames Gateway Initiative, to contribute towards the construction of the new campus. This is an exciting development for the University and its partners - EEDA, SEEC, Southend Borough Council and the Thames Gateway Partnership. It will herald the growth of a very substantial higher education presence in Southend, an area that will be transformed over the next 10-15 years by the Thames Gateway Initiative resulting in significant growth in housing, population and employment. The University expects its base at Southend to contain an innovative model for the delivery of higher education and we are currently discussing with various agencies recurrent funding arrangements. I will report more on this next year.

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 the Higher Education Funding Council for England (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 & Risk Management Committee, a Health & 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. This process has been developed during the year so as to be compliant as at 31 July 2003 and up to the date of approval of the Financial Statements and accords with HEFCE guidance.

As the governing body of the University of Essex, the Council also has responsibility for reviewing the effectiveness of the system of internal control. Measures to manage risk have been put in place, which in many instances, build upon procedures established by the University in recent years. These are as follows:

- ?? Expanded terms of reference of the former Finance Committee to include discussion of the plans and strategic direction of the University. The Finance & Strategy Committee now meets on six occasions each year;
- ?? Consideration of the University's strategy, based upon advice from the Finance & Strategy Committee, now forms part of the regular termly meetings of the Council;
- ?? Oversight of the University's risk management activity by the Audit & Risk Management Committee;
- ?? Receipt by the Audit & Risk Management Committee of an annual report from the Head of Internal Audit, which include an independent opinion on the adequacy and effectiveness of the University's system of internal control. The Committee also receives a report on each audit assignment, together with recommendations for improvement made by Internal Audit;
- ?? Receipt by Council of an annual report from the Chairman of the Audit & Risk Management Committee concerning internal control;
- ?? A programme to heighten risk awareness across the University, including embedding risk management within strategic planning and academic programme developments;

Corporate Governance, Risk Management and Internal Control (continued)

- ?? A system of key performance and risk indicators;
- ?? An organization-wide risk register, with a robust risk prioritization methodology based on risk ranking and costs and benefits of action to mitigate or avoid risks so identified;
- ?? A Risk Management Group composed of senior management, to consider and prioritise new risks as these are identified, to review the risk register on a regular basis, and to ensure that risk management action plans are in place.

The review of the effectiveness of the system of internal control is informed by the work of Internal Audit. At the end of March 2003, the contract with PKF, Chartered Accountants, to provide its internal audit service was replaced by an Internal Audit Consortium established jointly with the Colchester Institute. Both PKF and the Consortium operated to standards defined in the HEFCE Audit Code of Practice and the HEFCE Audit Service last reviewed the work of internal audit for effectiveness in July 1999. Internal Audit submits 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 & Risk Management Committee and Council;
- ?? a professional internal audit team whose annual programme is approved by the Audit & Risk Management Committee.

The Audit & 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, the work of those managers within the University who have responsibility for the development and maintenance of the internal control framework and 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 14 to 38 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 14 to 16.

Respective responsibilities of the Council and Auditors

As described on page 10, 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.

This report is made solely to the University's Council and the funding bodies. Our audit work has been undertaken so that we might state to these stakeholders those matters we are required to state to them in the 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 University, its Council and the funding bodies, for our audit work, for this report, or for the opinions we have formed.

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 2003, 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.

**Report of the Independent Auditors to the Council of the University of Essex
(continued)**

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 dated 1 August 2000.

SCRUTTON BLAND
Chartered Accountants and Registered Auditors

Sir Isaac's Walk
Colchester
CO1 1JL

1 December 2003

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 pages 7 to 9 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 pages 7 to 9 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

1 December 2003

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 (Note 31) and the University's share of the results and reserves of its joint venture company. 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 subsidiary 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 8, 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 8). 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 other 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.

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.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

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.

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.

Statement of Principal Accounting Policies and Estimation Techniques (continued)

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.

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 2003**

	Note	2002-03 £'000	2001-02 £'000
Income			
Funding Council Grants	1	25,498	23,078
Academic Fees and Support Grants	2	23,639	19,213
Research Grants and Contracts	3	13,280	10,376
Other Operating Income	4	14,999	14,649
Endowment and Investment Income Receivable	5	1,161	1,135
Total		<u>78,577</u>	<u>68,451</u>
Less: share of joint venture income		(295)	0
Total Income		<u>78,282</u>	<u>68,451</u>
Expenditure			
Staff Costs	7	46,122	41,217
Other Operating Expenses	8	25,586	22,565
Depreciation	10	2,038	1,892
Interest Payable	10	1,085	1,301
Total Expenditure	10	<u>74,831</u>	<u>66,975</u>
Operating Surplus on Ordinary Activities		3,451	1,476
Share of operating loss in joint venture		<u>(137)</u>	
Surplus after Depreciation of Assets at Cost and before Tax		3,314	1,476
Taxation		0	0
Surplus after Depreciation of Assets at Cost and after Tax	6	<u>3,314</u>	<u>1,476</u>
Statement of Historical Cost Surpluses for the year ended 31 July 2003			
Reported Surplus on Activities before and after Tax	21	3,314	1,476
Transferred from Revaluation Reserve		54	0
Historical Cost Surplus on Activities before and after Tax		<u>3,368</u>	<u>1,476</u>

The Income and Expenditure Account is in respect of continuing activities.

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
BALANCE SHEET
AS AT 31 JULY 2003**

		Consolidated		University	
	Note	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Fixed Assets					
Tangible Fixed Assets	11	81,318	52,789	56,544	52,744
Investments	12	625	777	20,502	18,094
Investment in joint venture					
Share of gross assets		196	0	0	0
Share of gross liabilities		(326)	0	0	0
		<u>81,813</u>	<u>53,566</u>	<u>77,046</u>	<u>70,838</u>
Endowment Asset Investments	13	<u>8,495</u>	<u>8,771</u>	<u>8,495</u>	<u>8,771</u>
Current Assets					
Stock and Stores		329	330	306	307
Debtors	14	4,939	4,653	5,132	4,498
Debtors - amounts due after more than one year	14	2,513	731	2,513	731
Investments		8,759	9,013	8,759	9,013
Cash at Bank and in Hand		179	375	52	347
		<u>16,719</u>	<u>15,102</u>	<u>16,762</u>	<u>14,896</u>
Creditors: amounts falling due within one year	15	<u>(11,263)</u>	<u>(10,026)</u>	<u>(11,484)</u>	<u>(9,820)</u>
Net Current Assets		<u>5,456</u>	<u>5,076</u>	<u>5,278</u>	<u>5,076</u>
Total Assets less Current Liabilities		<u>95,764</u>	<u>67,413</u>	<u>90,819</u>	<u>84,685</u>
Creditors: amounts falling due after more than one year	16	(43,560)	(19,754)	(21,303)	(19,754)
Provisions for Liabilities and Charges	17	(856)	(615)	(856)	(615)
Net Assets		<u>51,348</u>	<u>47,044</u>	<u>68,660</u>	<u>64,316</u>
Deferred Capital Grants and Gifts	18	12,345	11,097	12,345	11,097
Endowments					
Specific	19	8,263	8,547	8,263	8,547
General	19	232	224	232	224
		<u>8,495</u>	<u>8,771</u>	<u>8,495</u>	<u>8,771</u>
Reserves					
Revaluation Reserve	20	93	129	93	129
General Reserve	21	30,415	27,047	47,727	44,319
		<u>30,508</u>	<u>27,176</u>	<u>47,820</u>	<u>44,448</u>
Total Funds		<u>51,348</u>	<u>47,044</u>	<u>68,660</u>	<u>64,316</u>

The Financial Statements on pages 14 to 38 were approved by Finance & Strategy Committee on 1 December 2003 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 2003**

	Note	2002-03 £'000	2001-02 £'000
Net Cash Inflow from Operating Activities	23	3,807	1,610
Returns on Investments and Servicing of Finance	24	76	(166)
Taxation		0	0
Capital Expenditure and Financial Investment	25	(3,706)	(2,741)
Cash Inflow/ (Outflow) before use of Liquid Resources and Financing		177	(1,297)
Management of Liquid Resources	27	254	3,329
Financing	26	(994)	(561)
(Decrease)/Increase in Cash in the period	28	(563)	1,471
Reconciliation of Net Cash Flow to Movement in Net Debt			
(Decrease)/Increase in Cash in the period		(563)	1,471
Increase/(Decrease) in Liquid Resources		(254)	(3,329)
Changes in Net Debt		(23,754)	561
Movement in Net Debt in period		(24,571)	(1,297)
Net Debt at 1 August 2002		(11,548)	(10,251)
Net Debt at 31 July 2003	28	(36,119)	(11,548)

**UNIVERSITY OF ESSEX
AND SUBSIDIARY UNDERTAKINGS
STATEMENT OF CONSOLIDATED TOTAL
RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2003**

2002-03 2001-02
£'000 £'000

Recognised gains (losses) relating to the year

Surplus on Continuing Operations after depreciation of assets at cost, disposal of assets and tax	3,314	1,476
(Depreciation)/Appreciation of Fixed Asset Investments	18	(14)
(Depreciation)/Appreciation of Endowment Asset Investments	(30)	(1,829)
Endowment Income retained (released) for year	(261)	(53)
New Endowments	15	26
Total Recognised gains (losses) relating to the year	<u>3,056</u>	<u>(394)</u>

Reconciliation

Opening Reserves and Endowments	35,947	36,341
Total recognised gains relating to the year	<u>3,056</u>	<u>(394)</u>
Closing Reserves and Endowments	<u>39,003</u>	<u>35,947</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

	2002-03	2001-02
	£'000	£'000
1. Funding Council Grants		
Recurrent (Teaching)	15,429	14,651
Recurrent (Research)	7,643	6,590
Recurrent (Other)	137	401
Special Initiatives	1,880	1,054
Deferred Capital Grants released in year - Buildings (Note 18)	409	382
	25,498	23,078
2. Academic Fees and Support Grants		
Full-time HE course fees:		
UK and EU students charged home fees	6,827	6,771
Students charged overseas and other fees	13,785	9,860
Part-time credit-bearing HE course fees	571	558
Non credit-bearing course fees	2,242	1,841
Research Training Support Grants	214	183
	23,639	19,213
3. Research Grants and Contracts		
Research Councils	7,704	6,160
UK-based charities	754	883
UK central government, local authorities, health and hospital authorities	1,226	1,026
UK industry, commerce and public corporations	1,527	757
European Union government bodies	1,318	1,032
European Union other	66	65
Other overseas	317	207
Other sources	197	40
Deferred Capital Gifts released in year - Equipment (Note 18)	171	206
	13,280	10,376
4. Other Operating Income		
Other Services Rendered:		
Course Validation Fees	49	47
Teaching Companies	35	0
UK central government, local authorities, health and hospital authorities	520	234
UK industry, commerce and public corporations	421	281
European Union government bodies	343	4
European Union other	110	27
Other overseas	7	14
Other sources	179	148
Residences, Catering and Conferences	10,318	9,594
Deferred Capital Gifts released in year - Buildings (Note 18)	50	50
Deferred Capital Gifts released in year - Equipment (Note 18)	32	0
Day Nursery	708	637
Profit on disposal of Fixed Assets	0	858
Other income	2,227	2,755
	14,999	14,649

**NOTES TO THE
FINANCIAL STATEMENTS**

2002-03 2001-02
£'000 £'000

5. Endowment and Investment Income Receivable

Income from Specific Endowment Asset Investments (Note 19)	285	411
Income from General Endowment Asset Investments (Note 19)	4	0
Income from Current Asset Investments	546	715
Income from Fixed Asset Investments	9	9
Release of Endowment (Note 19)	317	0
	1,161	1,135

6. Surplus after Depreciation of Assets at Cost and after Tax

The Surplus after Depreciation of Assets at Cost and after Tax is made up as follows:

University's surplus for the period	3,117	1,080
Surplus generated by subsidiary undertakings and transferred to the University under Gift Aid	237	403
Other surpluses/(deficits) generated by subsidiary undertakings	(40)	(7)
	3,314	1,476

7. Staff Costs

Wages and Salaries	38,652	34,859
Social Security Costs	2,793	2,440
Other Pension Costs	4,677	3,918
	46,122	41,217
Emoluments of the Vice-Chancellor for year to 31 July 2003	140	133

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 £21,572 (2001-02 £19,563).

No higher paid member of staff received compensation for loss of office during the two years to 31 July 2003.

Remuneration of higher paid staff, excluding employer's pension contributions:	Number	Number
	of staff	of staff
£70,000-£79,999	2	3
£80,000-£89,999	1	0
	3	3

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

Academic and Teaching Fellow	437	436
Research Officer	124	104
Technical	74	75
Senior Administrative	122	93
Clerical and Secretarial	295	273
Other	874	863
	1,926	1,844

**NOTES TO THE
FINANCIAL STATEMENTS**

2002-03 2001-02
£'000 £'000

8. Other Operating Expenses

Residences, Catering and Conferences	3,932	3,275
Information Technology, Consumables and Laboratory Expenditure	9,817	8,764
Equipment	2,933	2,690
Books and Periodicals	1,286	1,159
Studentships and Scholarships	644	499
Heat, Light, Water and Power	580	589
Repairs and General Maintenance	1,853	1,582
Minor Works	493	380
Rates	148	159
Insurance	392	181
Grants to Students' Union	545	334
Audit Fees	118	110
Early Retirements and Severances	193	102
Payment of HEFCE grant to partner institutions	1,185	1,147
Loss on Zero Dividend Preference Shares	0	240
Investment in ICENI Seedcorn Fund	0	300
Other Expenses	1,467	1,054
	<u>25,586</u>	<u>22,565</u>

Audit fees include:

External audit	42	40
Other services supplied by external audit	13	29
Internal audit	63	41
	<u>118</u>	<u>110</u>

9. Interest Payable

Bank and other Loans wholly repayable within five years	0	8
Loans not wholly repayable within five years	1,085	1,293
	<u>1,085</u>	<u>1,301</u>

10. Analysis of 2002-03 Expenditure by Activity

	Staff Costs £'000	Other Operating Expenses £'000	Depreciation £'000	Interest Payable £'000	Total £'000	2001-02 £'000
Academic Departments and Centres	24,746	4,660	97	0	29,503	27,087
Academic Services	3,138	2,678	10	0	5,826	5,732
Research Grants and Contracts	5,857	4,630	172	0	10,659	8,666
Residences, Catering and Conferences	3,050	3,932	735	1,074	8,791	8,370
Premises	2,709	3,858	905	0	7,472	6,340
Administration	3,994	1,487	111	0	5,592	4,895
Other Services Rendered	500	789	1	0	1,290	569
General Educational Expenditure	432	1,694	0	0	2,126	2,529
Student and Staff Facilities	1,466	900	7	11	2,384	2,014
Early Retirements and Severances	0	193	0	0	193	102
Other Expenses	230	765	0	0	995	671
Total per Income and Expenditure Account	<u>46,122</u>	<u>25,586</u>	<u>2,038</u>	<u>1,085</u>	<u>74,831</u>	<u>66,975</u>

The depreciation charge has been funded by:

Deferred Capital Grants and Gifts released (Note 18)	662
General Income	1,376
	<u>2,038</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

11. Tangible Assets

	University Land and Buildings £'000	University Equipment £'000	University Total £'000	Companies Land and Buildings	Companies Equipment £'000	Consolidated Total £'000
Cost						
At 1 August 2002	61,510	2,643	64,153		195	64,348
Additions	5,198	613	5,811	24,748	8	30,567
Disposals						0
At 31 July 2003	<u>66,708</u>	<u>3,256</u>	<u>69,964</u>	<u>24,748</u>	<u>203</u>	<u>94,915</u>
Depreciation						
At 1 August 2002	9,414	1,995	11,409		150	11,559
Charge for Year	1,514	497	2,011		27	2,038
Disposals						
At 31 July 2003	<u>10,928</u>	<u>2,492</u>	<u>13,420</u>	<u>0</u>	<u>177</u>	<u>13,597</u>
Net Book Value						
At 31 July 2003	<u>55,780</u>	<u>764</u>	<u>56,544</u>	<u>24,748</u>	<u>26</u>	<u>81,318</u>
At 1 August 2002	<u>52,096</u>	<u>648</u>	<u>52,744</u>	<u>0</u>	<u>45</u>	<u>52,789</u>

Additions to University Land and Buildings in the year included expenditure of £1.9m on the Biological Sciences extension, £0.9m on new teaching facilities at East 15 and £2.0m on other building work (2001-02 £2.7m).

Companies Land and Buildings includes the cost of the new University Quays residences completed in August 2003, (Note 12)

University Land and Buildings include leasehold land and buildings with a net book value of £284,000 (2001-02 £298,000) which were acquired in 2000 upon merger with East 15 Acting School Limited.

12. Investments

	Consolidated		University	
	2002-03 £'000	2001-02 £'000	2002-03 £'000	2001-02 £'000
At 1 August 2002	777	1,406	18,094	1,373
Additions	1	0	2,561	17,350
Disposal of Investments	(204)	(398)	(204)	(398)
Loss on Disposal of Investments	0	(156)	0	(156)
Revaluation Reserve	18	(14)	18	(14)
Appreciation / (Depreciation) in value of Investments	33	(61)	33	(61)
At 31 July 2003	<u>625</u>	<u>777</u>	<u>20,502</u>	<u>18,094</u>
Comprising:				
Treasury Gilts	240	426	240	426
Zero Dividend Preference Shares	304	271	304	271
Land designated for Research Park	0	0	17,420	17,350
Universal Accommodation Group Ltd	0	0	2,491	0
Other Investments	81	80	47	47
	<u>625</u>	<u>777</u>	<u>20,502</u>	<u>18,094</u>

Details of investments in subsidiary undertakings are included in Note 31.

**NOTES TO THE
FINANCIAL STATEMENTS**

12. Investments (continued)

During 2001, the University entered into a put and call option to purchase the whole of the issued share capital of Universal Accommodation Group Limited, which is the company undertaking the building of student residences at University Quays. It is currently owned by the developer. Under the put and call options, in certain circumstances, the University may be able to purchase the building rather than the share capital. The residences reached practical completion on 31 August 2003, and on 26 September 2003, the University signed a lease to enable it to occupy the building.

Under Financial Reporting Standard 5, "Substance of Transactions", the assets of shares in the subsidiary, and of property upon consolidation, are recognised in these Financial Statements together with the relevant liability.

The purchase price for the shares in Universal Accommodation Group Limited is based upon a property value of £24.7m less related borrowing.

13. Endowment Asset Investments

	2002-03	2001-02
	£'000	£'000
Balance at 1 August 2002	8,771	10,627
Additions	15	26
Disposals	(317)	0
(Depreciation)/Appreciation	(30)	(1,829)
Excess of (Expenditure over Income) / Income over Expenditure	56	(53)
At 31 July 2003	<u>8,495</u>	<u>8,771</u>
Represented by:		
Fixed Interest Stocks	1,046	1,020
Equities	7,180	7,252
Bank Balances and Deposits	269	499
Total Endowment Asset Investments at Market Value	<u>8,495</u>	<u>8,771</u>
Total Endowment Asset Investments at Cost	<u><u>9,919</u></u>	<u><u>9,938</u></u>

14. Debtors

	Consolidated		University	
	2002-03	2001-02	2002-03	2001-02
	£'000	£'000	£'000	£'000
Trade Debtors	1,692	2,096	1,807	1,939
Student Fees	401	363	401	363
Research Debtors	2,622	1,870	2,622	1,870
Prepayments and Accrued Income	117	217	117	217
Amount owed by Students' Union within one year	107	107	107	107
Amounts owed by Subsidiary Undertakings	0	0	78	2
Total amounts falling due within one year	<u>4,939</u>	<u>4,653</u>	<u>5,132</u>	<u>4,498</u>
Long-term Debtor - Students' Union	637	731	637	731
Prepayment to South East Essex College	1,876	0	1,876	0
	<u><u>7,452</u></u>	<u><u>5,384</u></u>	<u><u>7,645</u></u>	<u><u>5,229</u></u>

Of the amount owed by the Students' Union, £637,246 (2001-02 £730,875) is recoverable after more than one year. In August 2003, the University loaned the Union a further £200,000 for the Phase 2 refurbishment programme.

Included as a Prepayment is £1,876,000 contributed towards the cost of the new building for South East Essex College in Southend.

**NOTES TO THE
FINANCIAL STATEMENTS**

15. Creditors: Amounts falling due within one year

	Consolidated		University	
	2002-03	2001-02	2002-03	2001-02
	£'000	£'000	£'000	£'000
Mortgages and Unsecured Loans	1,108	1,160	1,108	1,159
Payments Received on Account	1,530	1,857	1,530	1,857
Research Creditors	1,810	1,388	1,810	1,388
Trade Creditors	1,951	2,159	2,427	2,152
Amounts owed to Subsidiary Undertakings	0	0	3	107
Social Security and Other Taxation Payable	977	837	967	822
Accruals	3,498	2,603	3,275	2,335
Bank Overdraft	389	22	364	0
	<u>11,263</u>	<u>10,026</u>	<u>11,484</u>	<u>9,820</u>

The Bank Overdraft arises in respect of unpresented cheques and BACS transmissions at 31 July.

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

Loans secured on property:				
repayable between one and two years	1,862	1,862	1,862	1,862
repayable between two and five years	1,862	1,862	1,862	1,862
repayable after five years	14,913	15,839	14,913	15,839
Unsecured Loans:				
repayable between one and two years	33	31	33	31
repayable between two and five years	37	35	37	35
repayable after five years	105	125	105	125
Other amounts due after more than one year	24,748	0	2,491	0
	<u>43,560</u>	<u>19,754</u>	<u>21,303</u>	<u>19,754</u>

Loans of £18.7m (£19.6m 2001-02) secured on the freehold property of the University are repayable by instalments falling due between 1 August 2003 and 31 July 2026, at an average interest rate of 5.15% for the 2003-04 financial year. This forecast of interest rates is based on LIBOR of 3.7% and the banks' margin (typically 0.5%), taking into account the effect of various swap rates.

The University has a number of interest rate swaps as part of a revised debt management policy to ensure that 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 decision to take out a new loan of £27m to fund the purchase of the University Quays student residences, and the contribution towards the new building for South East Essex College in Southend.

The consolidated figures include the liability to acquire Universal Accommodation Group Ltd, at a cost of £24.7m.

**NOTES TO THE
FINANCIAL STATEMENTS**

17. Provisions for Liabilities and Charges

	Consolidated and University				Total £'000
	Part Time Employees £'000	Future Severances £'000	Pension Deficiency £'000	Early Retirement £'000	
At 1 August 2002	0	0	255	360	615
Utilised in Year	0	0	(96)	(43)	(139)
Transfer from Income & Expenditure Account	250	114	0	16	380
At 31 July 2003	250	114	159	333	856

Decisions by the European Court of Justice in relation to part-time employees have led to the creation of a provision to meet pension liabilities in respect of existing and former members of staff covering the period from 1977 to date. It is estimated that this provision will be released by March 2005.

The future severances provision exists to meet the future costs of employees taking early retirement under the University's Early Retirement Scheme. It will be released fully over the following financial year.

Provision has been made to meet a past service deficiency within the Essex County Council Superannuation Scheme 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 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. It is estimated that the provision will be fully released to the Income and Expenditure Account by 2016.

18. Deferred Capital Grants and Gifts

	Consolidated and University		
	Funding Council £'000	Other Grants & Gifts £'000	Total £'000
At 1 August 2002:			
Buildings	9,242	1,585	10,827
Equipment	0	270	270
	<u>9,242</u>	<u>1,855</u>	<u>11,097</u>
Receivable:			
Buildings	1,761	0	1,761
Equipment	0	149	149
	<u>1,761</u>	<u>149</u>	<u>1,910</u>
Released: to Income and Expenditure Account (Notes 1, 3 and 4):			
Buildings	(409)	(50)	(459)
Equipment	0	(203)	(203)
	<u>(409)</u>	<u>(253)</u>	<u>(662)</u>
At 31 July 2003:			
Buildings	10,594	1,535	12,129
Equipment	0	216	216
	<u>10,594</u>	<u>1,751</u>	<u>12,345</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

19. Endowments

	Consolidated and University		
	Specific £'000	General £'000	Total £'000
At 1 August 2002	8,547	224	8,771
Additions	15	0	15
Depreciation of Endowment Asset Investments	(30)	0	(30)
Income for Year	333	12	345
Transferred to Income and Expenditure Account (Note 5)	(602)	(4)	(606)
At 31 July 2003	<u>8,263</u>	<u>232</u>	<u>8,495</u>
Representing:			
Research Endowment Fund	6,571	0	6,571
Other Specific Endowments	1,692	0	1,692
Other General Endowments	0	232	232
	<u>8,263</u>	<u>232</u>	<u>8,495</u>

20. Revaluation Reserve

	Consolidated and University £'000
At 1 August 2002	129
Revaluation in Year	18
Release to Income and Expenditure Reserve	(54)
At 31 July 2003	<u>93</u>

21. General Reserve

	Consolidated £'000	University £'000
Balance at 1 August 2002	27,047	44,319
Transfer from Revaluation Reserve	54	54
Surplus after depreciation of assets at historical cost and after tax	3,314	3,354
Balance at 31 July 2003	<u>30,415</u>	<u>47,727</u>

Included within the University reserves is an amount of £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.

22. Capital Commitments

As at 31 July 2003, the University was committed to £6.2m capital expenditure on new buildings (£2.4m 2001-02) and £1.2m on refurbishment and upgrading projects (£0.2m 2001-02).

In addition, the University was committed to a contribution of £2m to South East Essex College towards the capital cost of a new college building.

**NOTES TO THE
FINANCIAL STATEMENTS**

Consolidated

2002-03 2001-02
£'000 £'000

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

Surplus before tax	3,314	1,476
Depreciation (Note 10)	2,038	1,892
Deferred Capital Grants Released to Income (Note 18)	(662)	(638)
Investment Income (Note 5)	(1,161)	(1,135)
(Appreciation)/Depreciation in value of Fixed Asset Investments	(33)	61
Decrease in Investment Assets	130	0
Profit on Sale of Fixed Assets (Note 4)	0	(858)
Interest Payable (Note 9)	1,085	1,301
Loss on Sale of Fixed Asset Investments	0	156
(Increase)/Decrease in Stocks	1	21
(Increase)/Decrease in Debtors	(2,068)	(998)
(Decrease)/Increase in Creditors	922	598
(Decrease)/Increase in Provisions	241	(266)
Net Cash Inflow from Operating Activities	<u>3,807</u>	<u>1,610</u>

24. Returns on Investment and Servicing of Finance

Income from Endowments	606	411
Income from Fixed Asset Investments	9	9
Income from Short-term Investments	546	715
Interest Paid	(1,085)	(1,301)
	<u>76</u>	<u>(166)</u>

25. Capital Expenditure and Financial Investment

Total Fixed Assets Acquired (Note 11)	(5,819)	(5,906)
Receipts from Sale of Tangible Assets	0	1,608
Fixed Asset Investments Acquired	(1)	0
Receipts from Sale of Fixed Asset Investments	204	398
Deferred Capital Grants Received (Note 18)	1,910	1,159
	<u>(3,706)</u>	<u>(2,741)</u>

26. Analysis of Changes in Consolidated Financing

New Liabilities / Loans - Cash Flow	0	285
Capital Repayments	(994)	(846)
Net Amount of Loan repaid in the Year	(994)	(561)
New Liabilities/Loans - not Cash Flow (Note 29)	24,748	0
Balances at 1 August 2002	20,914	21,475
Balances at 31 July 2003	<u>44,668</u>	<u>20,914</u>

**NOTES TO THE
FINANCIAL STATEMENTS**

2002-03 2001-02
£'000 £'000

27. Management of Liquid Resources

Decrease/(Increase) in Short Term Investments	<u><u>254</u></u>	<u><u>3,329</u></u>
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28. Analysis of Changes in Net Debt

	At 31 July 2002 £'000	Cash Flows £'000	Other Changes £'000	At 31 July 2003 £'000
Cash at Bank and in Hand	375	(196)	0	179
Overdraft	(22)	(367)	0	(389)
	<u>353</u>	<u>(563)</u>	<u>0</u>	<u>(210)</u>
Liquid Resources	<u>9,013</u>	<u>(254)</u>	<u>0</u>	<u>8,759</u>
	9,366	(817)	0	8,549
Debt due within one year	(1,160)	994	(942)	(1,108)
Debt due after one year	<u>(19,754)</u>	<u>0</u>	<u>(23,806)</u>	<u>(43,560)</u>
	<u><u>(11,548)</u></u>	<u><u>177</u></u>	<u><u>(24,748)</u></u>	<u><u>(36,119)</u></u>

29. Major Non-cash Transactions

The University is acquiring Universal Accommodation Group Ltd (see Note 12). On consolidation, both the property and the related liability of £24,768,000 are recognised in these financial statements.

30. Pension Schemes

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

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 for the UEPS was made at the end of the first year of operation in July 1998. A full actuarial valuation was carried out on 31 March 2001.

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.

The total pension cost for the University and its subsidiary undertakings was:

	2002-03 £'000	2001-02 £'000
Contribution to USS to fund future service	3,394	2,949
Contribution to LGPS to fund future service	548	526
LGPS additional University costs to fund past service deficiency	242	120
Contributions to UEPS to fund future service	490	315
Contributions to Other	3	8
Total Pension Cost	<u><u>4,677</u></u>	<u><u>3,918</u></u>

NOTES TO THE FINANCIAL STATEMENTS

Universities Superannuation Scheme

This is a defined benefit scheme which is externally funded and is valued every three years by a professionally qualified independent actuary using the projected unit method, with the rates of contribution being determined by the trustees upon the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme and are accounted for on the basis of charging the cost of providing pensions over the period during which the institutions benefit from the employees' services.

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 2002. 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 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities, it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum.

At the valuation date, the market value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million, leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of valuation was 14.25% of salaries, but it was agreed that the rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5m million of the surplus. This left a past service surplus of £79.5 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 2005, when the above rates will be reviewed.

The contribution rate payable by the University in the 2002-03 year was 14% of pensionable salaries.

**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-03 %	Value at 31-Jul-03 £'000	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	1,180,000	8.00	1,051,000	7.25	1,282,000
Gilts	4.70	168,000	4.90	68,000	5.00	35,000
Bonds	5.40	159,000	5.90	241,000	5.90	258,000
Property	6.70	200,000	5.90	170,000	5.90	168,000
Cash	3.50	26,000	4.50	67,000	5.00	88,000
Total market value of assets		<u>1,733,000</u>		<u>1,597,000</u>		<u>1,831,000</u>
University of Essex estimated asset share		20,922		19,260		22,103
Present value of scheme liabilities		(33,874)		(29,070)		(27,111)
Surplus/(Deficit) in the scheme		<u>(12,952)</u>		<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 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-03 %	At 31-Jul-02 %	At 31-Jul-01 %
Rate of increase in salaries	4.30	4.30	4.30
Rate of increase in pension payments	2.50	2.50	2.50
Expected return on assets	7.22	7.20	6.80
Discount rate for liabilities	5.40	5.90	5.90
Inflation assumptions	2.50	2.50	2.50

History of Experience Gains and Losses

	2002-03 £'000	2001-02 £'000
Difference between the expected and actual return on scheme assets		
Amount	(368)	(4,400)
Percentage of the assets of the scheme	1.76%	22.85%
Experience gains (losses) arising on the scheme liabilities		
Amount	0	1
Percentage of the liabilities of the scheme	0.00%	0.00%
Total amount that would be recognised in the Statement of Total Recognised Gains and Losses under full adoption of FRS 17		
Amount	(3,010)	(4,399)
Percentage of the present value of the liabilities of the scheme	8.89%	15.13%

**NOTES TO THE
FINANCIAL STATEMENTS**

2002-03 2001-02
£'000 £'000

The Local Government Pension Scheme (continued)

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

Current service costs	(743)	(967)
Past service costs	0	0
Total operating charge	(743)	(967)

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

Expected return on pension scheme assets	1,405	1,505
Interest on pension liabilities	(1,727)	(1,574)
Net charge	(322)	(69)

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

Actual return less expected return on pension scheme assets	(368)	(4,400)
Experience gains and losses arising on the scheme liabilities	0	1
Changes in assumptions underlying the present value of scheme liabilities	(2,642)	0
Actuarial gain/(loss) recognised in STRGL	(3,010)	(4,399)

Movements in surplus (deficit) during the year

Surplus/(Deficit) in scheme at the beginning of the year	(9,810)	(5,008)
Movements in the year:		
Current service costs	(743)	(967)
Contributions	933	633
Past service costs	0	0
Other finance income	(322)	(69)
Actuarial losses	(3,010)	(4,399)
Recoverable Surplus/(Deficit) in scheme at the end of the year	(12,952)	(9,810)

**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-03 %	Value at 31-Jul-03 £'000	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	7.2	2001	7.4	1,114	7.5	659
Cash	4.0	31	4.0	75	4.0	98
Total market value of assets		<u>2,032</u>		<u>1,189</u>		<u>757</u>
Present value of scheme liabilities		2,786		1,474		990
Surplus/(Deficit) in the scheme		<u>(754)</u>		<u>(285)</u>		<u>(233)</u>

Actuarial Assumptions

A full actuarial valuation was carried out on 31 March 2001, and updated to 31 July 2003 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31-Jul-03 %	At 31-Jul-02 %	At 31-Jul-01 %
Rate of increase in salaries	3.8	3.6	3.7
Rate of increase in pension payments	2.8	2.6	2.7
Expected return on assets	7.2	7.2	-
Discount rate for liabilities	5.5	6.0	5.8
Inflation assumptions	2.8	2.6	2.7

History of Experience Gains and Losses

	2002-03 £'000	2001-02 £'000	2000-01 £'000
Difference between the expected and actual return on scheme assets			
Amount	93	312	152
Percentage of the assets of the scheme	4.6%	26.2%	20.1%
Experience gains and losses on scheme liabilities			
Amount	141	104	146
Percentage of the liabilities of the scheme	5.1%	7.1%	14.7%
Total amount that would be recognised in the Statement of Total Recognised Gains and Losses under full adoption of FRS 17			
Amount	(444)	(81)	(135)
Percentage of the present value of the liabilities of the scheme	(15.9%)	(5.6%)	(13.6%)

**NOTES TO THE
FINANCIAL STATEMENTS**

2002-03 2001-02
£'000 £'000

The University of Essex Pension Scheme (continued)

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

Current service costs	(545)	(383)
Past service costs	0	0
Total operating charge	(545)	383

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

Expected return on pension scheme assets	115	77
Interest on pension liabilities	(114)	(76)
Net return	1	1

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

Actual return less expected return on pension scheme assets	(93)	(312)
Experience of gains and losses arising on the scheme liabilities	141	104
Changes in assumptions underlying the present value of scheme liabilities	(492)	127
Actuarial Gain/(Loss) recognised in the Statement of Total Recognised Gains and Losses	(444)	(81)

Movements in Surplus/(Deficit) during the year

Surplus/(Deficit) in scheme at the beginning of the year	(285)	(233)
Movements in the year:		
Current service costs	(545)	(383)
Contributions	517	398
Past service costs	0	0
Other finance income	2	14
Net return on assets	1	1
Actuarial losses	(444)	(82)
Recoverable Surplus/(Deficit) in scheme at the end of the year	(754)	(285)

**NOTES TO THE
FINANCIAL STATEMENTS**

31. University Companies

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

<u>Company</u>	2003 <u>£1 Shares</u>	2002 <u>£1 Shares</u>	<u>Activity</u>
Wivenhoe Technology Ltd	2	2	Acquisition, protection and licensing of intellectual property from the University
W P Management Ltd	2	2	Management of commercial activities at the University
University of Essex Research Park Holdings Ltd	17,370,002	17,350,002	Holding land on behalf of the University for development as a research park
University of Essex Research Park Ltd	50,002	2	Development and marketing of a research park
University of Essex Environmental Facilities Ltd	100,000	100,000	Dormant throughout the year
Wivenhoe Building Management Services Ltd	2	2	Dormant throughout the year
Universal Accommodation Group Limited	1	-	Developing student accommodation (see Note 12)

The level of surplus (deficit) from each of the wholly owned trading subsidiaries was as follows:

	Year-end date	2002-03 £'000	2001-02 £'000
<u>Wholly-owned subsidiaries:</u>			
Wivenhoe Technology Ltd	31 July	(4)	(2)
W P Management Ltd	31 July	226	384
University of Essex Research Park Holdings Ltd	31 July	0	0
University of Essex Research Park Ltd	31 July	0	0
		<u>222</u>	<u>382</u>

These results have been included in the consolidated financial statements.

A joint venture agreement has been signed with Carisbrooke Alliance Ltd, setting up the Carisbrooke-Essex Partnership. The aim of this venture is to establish a research park on campus. The University 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 during the year ended 31 July 2002. A further £20,000 of redeemable shares were issued by the company during the year and were acquired by the University. In addition, the University has established a wholly-owned subsidiary, University of Essex Research Park Ltd, to act as the main agent in the Carisbrooke-Essex Partnership. A further £50,000 ordinary shares were issued by the company during the year and were acquired by the University.

**NOTES TO THE
FINANCIAL STATEMENTS**

University Companies (continued)

Wivenhoe Technology Ltd has a holding in the share capital of the following companies, all of which are incorporated in England:

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

The level of surplus/(deficit) from each of these companies was as follows:

Company	Year-end Date	2002-03 £'000	2001-02 £'000
Immunoporation Ltd	30 June	(23)	(22)
Technologica Ltd	31 July	(13)	4
Nesstar Ltd	30 June	(273)	122

The results of Technologica Ltd have been consolidated in the Financial Statements and those of Nesstar Ltd have been accounted for as a joint venture.

32. Hardship Funds

	University	
	2002-03 £'000	2001-02 £'000
Funding Council Grants	321	295
Interest Earned	5	2
	326	297
Disbursed to Students	325	284
Balance unspent at 31 July	1	13

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.

NOTES TO THE FINANCIAL STATEMENTS

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 2003 the University paid the Union a grant of £334,100 (2001-02: £333,650), a one-off grant of £200,000 towards the cost of Phase 2 of its refurbishment programme and provided accommodation free of rent. The University has also loaned the Union £958,950 to meet the cost of Phase 1 of its refurbishment programme. The loan bears a fixed rate of interest of 5.25%, and is repayable over 9 years. The amount of loan outstanding at 31 July 2003 was £744,490 (2001-02 £838,875) (Note 14).

In August 2003, the University loaned the Union a further £200,000 for the Phase 2 refurbishment programme.

For the 2002-03 year, the Union's Income and Expenditure Account shows the following:

	2002-03	2001-02
	£'000	£'000
Income	907	661
Expenditure	832	888
Operating surplus / (deficit) before transfers from/(to) reserves	75	(227)
Transfers from/(to) reserves	0	110
Surplus / (Deficit) after transfers from/(to) reserves	75	(117)

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.

FIVE-YEAR SUMMARY OF FINANCIAL POSITION

	1998-99 £'000	1999-00 £'000	2000-01 £'000	2001-02 £'000	2002-03 £'000
INCOME AND EXPENDITURE ACCOUNT					
Income					
Funding Council Grants	17,791	18,738	20,916	23,078	25,498
Academic Fees and Support Grants	14,141	14,878	17,201	19,213	23,639
Research Grants and Contracts	8,884	9,073	11,050	10,376	13,280
Other Operating Income	11,510	10,892	13,421	14,649	14,704
Endowment and Investment Income Receivable	1,468	1,368	1,356	1,135	1,161
Total Income	53,794	54,949	63,944	68,451	78,282
Expenditure					
Staff Costs	32,338	34,408	37,966	41,217	46,122
Other Operating Expenses	17,811	17,516	21,455	22,565	25,586
Depreciation	1,261	1,275	1,671	1,892	2,038
Interest Payable	1,043	1,075	1,447	1,301	1,085
Total Expenditure	52,453	54,274	62,539	66,975	74,831
Surplus for the year	1,341	675	1,405	1,476	3,451
Share of operating loss in joint venture	0	0	0	0	(137)
Surplus after joint venture	1,341	675	1,405	1,476	3,314
BALANCE SHEET AS AT 31 JULY					
Fixed Assets	45,366	52,703	53,724	53,566	81,813
Endowment Asset Investments	11,410	11,858	10,627	8,771	8,495
Current Assets	15,988	14,951	17,318	15,102	16,719
Creditors: amounts falling due within one year	(9,487)	(9,529)	(10,622)	(10,026)	(11,263)
Total Assets less Current Liabilities	63,277	69,983	71,047	67,413	95,764
Creditors: amounts falling due after more than one year	(13,180)	(19,562)	(20,456)	(19,754)	(43,560)
Provisions for Liabilities	(1,442)	(849)	(881)	(615)	(856)
Net Assets	48,655	49,572	49,710	47,044	51,348
Deferred Capital Grants and Gifts	13,563	13,328	13,369	11,097	12,345
Endowments	11,410	11,858	10,627	8,771	8,495
Reserves	23,682	24,386	25,714	27,176	30,508
Total Funds	48,655	49,572	49,710	47,044	51,348
FINANCIAL STATISTICS					
Surplus as a percentage of turnover	2.6%	1.2%	2.2%	2.2%	4.4%
Margin on Research Grants and Contracts <i>(income less direct expenditure/income)</i>	15.4%	15.3%	16.9%	16.5%	19.7%
Margin on Residences, Catering & Conferences <i>(income less direct expenditure/income)</i>	12.1%	10.4%	11.9%	12.8%	14.8%
Current Ratio <i>(current assets/current liabilities)</i>	1.7	1.6	1.6	1.5	1.5
Debt as percentage of total turnover	24.5%	35.6%	32.0%	28.9%	57.1%
Liquidity Days <i>(number of days ov average expenditure excluding depreciation supported by cash balances)</i>	89	81	67	53	43
Debtor Days <i>(number of days income excluding Funding Council grant represented by debtors due within one year)</i>	27	24	37	37	34