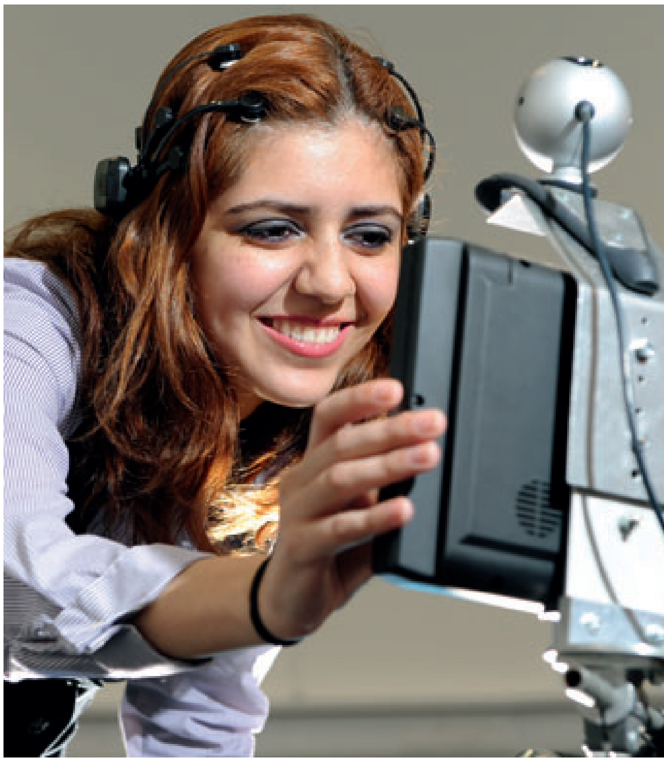
University of Essex



Financial Statements

2010-11

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2014

Contents

Chair's Report

I am pleased to present the University's Financial Statements for 2010-11, my first since assuming the role of Chairman of the Council of the University in August 2011. Having served as a member of Council over the last two years I am impressed with the University's breadth and depth of activity, its strong and dynamic leadership and its sound finances. This last year, and the coming year, are among the most important in the University's history, as it sows the seeds to ensure that it blossoms in a new and uncertain landscape.

Under the Chairmanship of Bill Gore, who stepped down in August 2011, the University: appointed a new Vice-Chancellor; implemented new management structures designed to embed accountability; and commenced a new major capital investment plan. I wish to pay tribute to Bill's steady oversight of the University in this transformative period.

The task ahead for the University, and the UK higher education sector, is going to be an immensely challenging one as the Government implements a series of reforms designed to increase student choice and competition between higher education institutions. Structural reform is being accompanied by financial austerity and uncertainty. From the back-end of 2009-10 public funding of universities began to be reduced as the former Labour Government then began to grapple with an emerging budget deficit of previously unknown proportions. The newly elected Government supplemented these cuts in 2010-11, the year we are now reporting on and in the current year, 2011-12. It is not until 2012-13 that the University has an opportunity to replace these lost income streams with new tuition fee income, but even then we will have to do this in a new market environment where nothing can be taken for granted.

The University has set tuition fees at the maximum permitted level of £9,000 for new entrants arriving in 2012-13. But the new fee system is poorly understood. Home and EU undergraduates will not themselves pay any tuition fees to the University or the Government. Instead future students will accrue a tax liability – misleadingly called a tuition fee loan as the students or graduates pay no tuition fees as such. Graduates will then repay this accrued tax liability from future earnings after they have graduated and secured a job and are earning above £21,000 per annum.

The challenge for the University is to manage the transition period that sees the phasing out of the old system and its replacement with a new one. Public funding cuts commenced in 2009-10 and the new system will not reach a steady state until 2014-15 – an extended period of funding change stretching over five years. Aside from the immediate task of managing this transition there is a more fundamental challenge – positioning the University to thrive in the new market environment, where future students will have higher expectations and institutions will be exposed to greater competitive forces.

The University has positioned itself well to respond to these challenges. This report provides details of a number of major projects about to commence, all of which are set to be open for business in 2013. Improving the physical environment is essential but it is equally important to maintain our research standing to ensure students benefit from the best research-led teaching, as well as investing in the student experience with improved sports and social facilities and in improving their employability after graduation. All these areas will be subject to enhanced investment over the coming years and it is this that will place the University in an exceptionally strong position to face new competitive challenges.

I began by acknowledging the contribution of Bill Gore, the University's former Chair of Council. The contribution from Professor Colin Riordan, the University's Vice-Chancellor has been very significant and it is his leadership that has laid the foundations for the future. Professor Riordan is to take up a new post in September 2012 at Cardiff University so my first task as the new Chair of Council is to lead a search for his replacement. The University's Registrar and Secretary, Dr Tony Rich, recently left the University to join the University of Bristol. Dr Rich played a key role in developing the University's academic partnerships, the creation of University Campus Suffolk and the establishment of health education at the University among many other things. I wish to record our gratitude for his immense contribution to the University's development. I am pleased to report that we have appointed a successor, Mr Bryn Morris who joins us from the Institute of Education, University of London.

David Currie – Chair of Council

Financial Highlights

(*2009-10 comparative figures shown in brackets*)

- Total income up 5% to £146m *(£139m)*
- Operating Surplus before staff severance costs, joint ventures and FRS17 of £2.1m *(£6.1m)*
- EBITDA[1] of £9.4m *(£10.8m)*
- Capital expenditure of £14.1m *(£39.9m)*
- Net assets of £140m *(£137m)*
- Net debt of £46m *(£45m)*

Summary Finances	**2010-11 £000**	2009-10 £000	Change £000	Change %
Income				
Funding Council grants	36,333	35,775	+558	+2%
Tuition fees and academic contracts	56,864	54,853	+2,011	+4%
Research grants and contracts	25,493	21,103	+4,390	+21%
Other income	26,994	26,893	+101	+0%
Endowment and investment income	562	336	+226	+67%
Total Income	146,246	138,960	+7,286	+5%
Total expenditure *excluding staff severance*	144,160	132,864	+11,954	+9%
Operating surplus	**2,086**	6,096	-4,668	
less staff severance costs and exceptional items	(2,748)	(642)		
add share of profit/(loss) in joint ventures	1,162	801		
add FRS17 accounting credit	1,477	783		
Surplus for the year	**1,977**	7,038	-5,061	
EBITDA[1] *(See Note 30)*	**9,398**	10,828	-1,430	
Capital expenditure	**14,110**	39,905	-25,795	
Capital grants received	**5,446**	5,018	+428	
Net debt	**46,306**	45,168	+1,138	
Net assets *at historic cost*	**140,024**	136,717	+3,307	

Student Numbers	**2010-11 FTEs**		2009-10 FTEs		Change	
Home/EU	**7,498**	**74%**	7,172	74%	+326	+4.5%
Overseas	**2,596**	**26%**	2,551	26%	+45	+1.8%
	10,094	**100%**	9,723	100%	+371	+3.8%
Undergraduate	**7,743**	**77%**	7,333	75%	+410	+5.6%
Postgraduate	**2,351**	**23%**	2,390	25%	-39	-1.6%
	10,094	**100%**	9,723	100%	+371	+3.8%

FTE = Full Time Equivalent studying at University of Essex campuses, excluding University Campus Suffolk Ltd and partner institutions.

The 2009-10 figures have been restated to match a revised HEFCE calculation methodology used to calculate the 2010-11 data.

[1]*Earnings before Interest, Tax, Depreciation & Amortisation – adjusted for one off staff restructuring costs and pension FRS17 adjustment.*

Operating and Financial Review

Constitution, Regulation and Business Environment

The University is an exempt charity established by Royal Charter in 1965 and its charitable affairs are regulated by the Higher Education Funding Council for England (HEFCE). Members of the Governing body, called Council, are trustees of the charity.

Established in Colchester, the University also operates branch campuses in Loughton and Southend.

These financial statements are those of the University of Essex Group, comprising the University, its various subsidiary undertakings and joint ventures. The most material of these is University Campus Suffolk Ltd, a joint venture with the University of East Anglia, that provides higher education in Ipswich and throughout Suffolk. Details of this and other subsidiary undertakings are included in note 26 of the financial statements.

The University operates in a complex mix of regulated and unregulated markets with a mix of primary purpose (i.e. charitable) and non-primary purpose activity. Non-primary purpose activity is organised through subsidiary undertakings.

Funding from HEFCE is governed by a Financial Memorandum which sets out the conditions of grant which the University must satisfy in order to receive public funding.

The Financial Statements are produced in accordance with the *Statement of Recommended Practice for Further and Higher Education (SORP)* which is based on UK Generally Accepted Accounting Principles. The Financial Statements are compliant with the HEFCE Accounts Direction 2010-11.

This review has been prepared in accordance with the *Reporting Statement: Operating and Financial Review* published by the Accounting Standards Board.

Vision and Financial Strategy

The University's Vision and Strategy 2009-2013

"In five years' time Essex will be acknowledged as a powerful regional university with global impact and an international reputation that is unparalleled for a university of our size. The University will achieve its growth through partnership (regional and international) and developing its multi-campus footprint. We will be advantageously placed in the world top 200 universities as defined by the Times Higher Education listings. The broad direction of travel is to build an international strategic alliance consisting of multilateral relations with a small number of selected universities from around the world. We are looking for:

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

Supporting this is a financial strategy with ambitions to grow income by 5% on average annually, creating a 3.5% surplus on our continuing operations, after providing for an extra recurrent investment in sustainability and strategic initiatives. The University has made substantial progress towards delivering this plan and in many respects exceeded its expectation of performance over the first three years of the strategic plan as the following table illustrates.

Key Performance Indicators

Strategic Priorities	Target	Performance
Research	Top ten ranking for research quality	Ranked 9th in the RAE2008 by grade point average (*source: The Times*)
	Research grant and contract income to increase by 5% per year	21% increase in 2010-11 16% in 2009-10 15% in 2008-09 (*source: financial statements*)
	90% of eligible staff submitted to RAE/REF (Research Assessment Exercise/Research Excellence Framework)	92% in RAE2008
Student experience	Improved National Student Survey (NSS) ranking	Ranked 20th for all non-specialist UK HEIs in the 2011 NSS (*source: NSS*)
	Overall student satisfaction rate of 85% in NSS	88% overall satisfaction in 2011 NSS 88% in 2010 85% in 2009
	Employability – 90% in employment or graduate study	87% in employment or graduate study *(source: HESA DLHE data)*
Global impact	Market share and growth – to have 35% of students from outside the UK	39% from outside the UK in 2010-11 38% in 2009-10 36% in 2008-09 *(source: internal data)*
	20% of students from more than 120 countries	20% from 129 countries in 2010-11 20% in 2009-10 20% in 2008-09 *(source: internal data)*
	No more than 8% of students from one non-UK country	7% from a single country in 2010-11 9% in 2009-10 7% in 2008-09 *(source: internal data)*
	Top 200 University in THE world ranking	215 ranking in 2011 248 in 2010 273 in 2009 *(source:THE World Rankings)*
Finance	Surplus 3.5% of turnover* *(Surplus before severance costs, joint ventures and FRS17 credit)* **The 3.5% target has been suspended during the period of transition between funding systems*	1.4% in 2010-11 4.4% in 2009-10 1.9% in 2008-09 *(source: financial statements)*
	Cash balance sufficient to fund 25 days average expenditure	80 days in 2010-11 60 days in 2009-10 56 days in 2008-09
	Affordability of debt (*operating cash flow to net debt servicing costs ratio to exceed 1.0)*	2.4 in 2010-11 6.8 in 2009-10 3.1 in 2008-09
	Staff costs/Income ratio to be in line with 1994 Group	54.5% in 2010-11 54.6% in 1994 Group (2009-10)
	5% growth of income	5.2% in 2010-11 13.2% in 2009-10 12.4% in 2008-09

Results for the Year

The surplus on continuing operations before joint ventures of £815k includes staff severance costs of £2.748m and a pensions accounting credit of £1.477m. Discounting these results is an underlying surplus from University operations of £2.1m (£6.1m in 2009-10):

	2010-11 £000	2009-10 £000
Surplus on continuing operations (excluding joint ventures)	815	6,237
add back staff severance costs	2,748	642
less credit arising from pensions accounting (FRS17)	(1,477)	(783)
Underlying Surplus for the year from University operations	**2,086**	**6,096**
% of total turnover	1.4%	4.4%
EBITDA *(See Note 30)*	**9,398**	**10,828**
% of total income	6.4%	7.8%

The reduction in the net surplus largely represents a timing issue of the impact of up-stream investment, in the form of higher interest costs and increased long-term maintenance activity, for example, and its down-stream payback. This effect is coupled with front-end loaded public funding reductions ahead of the new tuition fee system.

Earnings before interest, taxation, depreciation and amortisation adjusted for one off staff restructuring costs and pension FRS17 adjustment (EBITDA) decreased by a more modest £1.2m over the year, standing at £9.4m, providing a better reflection of changes to operating performance. This deterioration was due to an accelerated long-term maintenance programme as well as the impact of Government funding cuts. The Government have implemented a series of public funding reductions which for higher education commenced in late 2009-10, were accelerated in 2010-11 and will continue into the future, preceding the commencement of a new tuition fee system in 2012-13.

Turnover for the year grew by 5% to stand at £146m, an increase driven by:

- 21% increase in research grants and contract income to £25.5m;
- 22% increase in income from Commercial Services to £19m;
- 12% increase in NHS contract income to £6.3m;
- 10% increase in home/EU tuition fee income to £22.2m.

The increase in tuition fee income from home/EU students was accompanied by a reduction in teaching grant of 0.5%, reflecting the cuts in Government funding that the University has had to absorb and will continue to absorb until 2012-13 when the new tuition fee system commences.

Commercial Services income rose partly as a result of the first year of operating University Square, a new 560 bed student accommodation facility in Southend, along with increases in income from sports and catering activity, both of which have benefited from investment in new facilities with the opening of the Evolve gym and the Zest cafe.

Total staff FTEs increased by 12 over the year (up 0.7%) most of which reflects the growth in research contract income. In all, total staff costs represent 54.5% of total turnover, compared to 54.6% in 2009-10 and an average for our peers in the 1994 Group of 56% (2009-10 figures). Aligning our staff costs to those of our peers was an explicit objective of the University's strategy and this has been successfully achieved. During the year the University opened a major staff severance scheme, costing £2.748m in early retirement and severance costs. The savings from this investment will benefit 2011-12 onwards; helping the University position itself to cope with further funding cuts in the run up to the new tuition fee system.

Subsidiary Undertakings and Joint Ventures

University Campus Suffolk Ltd (UCS) is a joint venture with the University of East Anglia (UEA) delivering a range of higher education activity. UCS is a company limited by guarantee and an exempt charity with the University exercising joint control with UEA. Total income for the year was £37.255m, an increase of 7% over the prior year and its surplus of £2.313m (£1.6m in 2009-10) representing 6% of turnover. The University has provided loan guarantees of £9m, with the University of East Anglia underwriting a similar amount to fund capital projects undertaken by UCS. Half of the reported UCS performance for 2010-11 is reflected in these group financial statements.

In August 2010 the University re-organised many of its income-earning activities into a new Commercial Services section, appointing a new Director of Commercial Services to lead and develop new income-earning activity and enhance services provided to students and staff. This has been accompanied by investment in upgraded catering, day nursery and sports facilities. Some activities (catering, the day nursery and the print centre), previously operated through the University, transferred to a wholly owned subsidiary company: University of Essex Commercial Services Ltd (formerly called WP Management Ltd) during the year. The Company also operates campus conference activity and laundrettes. Other activities under the auspices of Commercial Services (student accommodation and the

Sports Centre) remain within the University. University of Essex Commercial Services Ltd contributed an operating profit of £579k (£333k loss in 2009-10).

Wivenhoe House Hotel was formerly operated under WP Management Ltd (now renamed University of Essex Commercial Services Ltd). The Hotel was closed in December 2010 for a major refurbishment. It will reopen in 2012 as a four-star quality hotel which will also be the home of the Edge Hotel School, a high-end conservatoire for the hospitality industry, funded by the Edge Foundation and the University. On opening, the University will lease the building to a newly created and wholly owned subsidiary company, Wivenhoe House Hotel Ltd, which is currently developing the building and will then commence trading. The Edge Hotel School will be based within Wivenhoe House and operated by Kaplan Open Learning, an academic partner of the University.

Wivenhoe Technology Ltd is the University's technology transfer and consultancy company The company recorded a profit for the year of £92k (£6k loss in 2009-10).

Universal Accommodation Group Ltd is a special purpose vehicle acquired by the University in 2003, holding the freehold of University Quays, a 770 bed space student accommodation facility. The company charges the University a lease rental for the property and in return the University levies loan charges to the company. The accommodation itself is operated by the University. A pre-tax profit for the year of £410k (£238k profit in 2009-10) was recorded.

The University's Knowledge Gateway project, involving the development of land on the Colchester campus for a variety of uses, is being developed by two wholly owned subsidiary companies: University of Essex Knowledge Gateway (Holdings) Ltd, which owns the freehold land on the site, and University of Essex Knowledge Gateway Ltd, which will develop commercial tenancies. Land earmarked for the project is currently under development with the University installing site infrastructure, prior to expected commercial tenancies being let.

Capital Investment

The capital investment plan is a five-year plan to address major estates issues and improvements to the IT and management information systems infrastructure. Capital investment stood at £14.1m (£39.9m in 08-09). Major projects underway include infrastructure for the Knowledge Gateway site – a £7.4m project nearing completion, providing road and service infrastructure to enable new development including infrastructure for planned student accommodation. The works have also provided for a new entrance onto the Campus from the A133.

In 2011 the Council of the University made decisions to proceed with a number of major capital projects:

- The Forum: a partnership with Southend Borough Council and South Essex College to provide a new shared facility in Southend. For the University this will complement the Southend Campus facilities. The total project cost is £26.7m, with the University contributing £10.4m;
- Student Centre: a new £11m facility that will house a number of student facing services currently distributed across the Colchester campus;
- Library Extension: an £11m extension to the Albert Sloman Library;
- Essex Business School Building: a £21m new building to house the Essex Business School.

In addition to these projects the University has recently appointed a 'preferred bidder' to deliver new student accommodation facilities on the Colchester Campus, known as The Meadows. The preferred bidder, a consortium called Uliving, will design, build, operate and finance The Meadows as well as operating the University Quays, an existing adjacent block of student accommodation. This will represent a substantial investment in campus facilities with operational and financial risk transferred to Uliving.

Investments, Liquidity and Debt

The investment asset allocation targets are:

	UK Equities	Absolute Return Funds	Cash
Permanent Endowments	95%	-	5%
Expendable Endowments	75%	20%	5%
General Funds	-	-	100%

The University is currently in a transition towards the new target asset allocation policy and as at 31 July 2011 £4.6m of general funds are invested in equity investments. The Investment Sub-Committee has called a temporary halt to the disposal programme in light of the University's robust cash position and the relative return offered by equities compared to cash deposits. This is being kept under constant review.

All UK equity investments are held in the Charishare Fund, a common investment fund managed by Blackrock. The investment objective is to outperform the FTSE All Share Index. The Fund returned 25.9% over the year compared to 25.6% by the FTSE All Share Index (to 30 June 2011). Over the last three years the Fund marginally under-performed the benchmark by returning 4.0% per annum compared to the FTSE All Share Index of 6.6% per annum.

Cash is managed conservatively with deposits in the University's clearing bank (LloydsTSB) and in an AAA-rated money market fund. Cash balances increased from £23.4m to £30.4m over the year. A target of holding minimum cash balances equating to 25 liquidity days (i.e. the number of days of average expenditure cash balances could support) has been set and at 31 July actual liquidity days amounted to 80 days.

Net cash flow from operating activities was £9.9m (£17.1m in 2009-10).

Total debt outstanding was £76.6m (£68.6m in 2009-10) as at 31 July. The University has drawn £63.6m of its £122m facility with Lloyds Bank. This facility includes a five-year repayment holiday which then terms out over 30 years, commencing in November 2013. A smaller loan facility with Barclays Bank loan had £13.0m outstanding as at 31 July.

The University's interest rate management policy is to fix the majority of its interest costs. This is achieved through a mixture of fixed rate loans and interest rate swaps. At 31 July 2011 65% of total debt was hedged in this way. In August 2011 a new £40m interest rate swap commenced which will have the effect of fixing interest costs over future loan drawings with the ultimate objective of fixing 80% of interest costs.

The University was fully compliant with its banking covenants and is confident of remaining so in the foreseeable future being not less than 12 months from signing these accounts:

Covenant Definition	Bank Requirement	Actual 2010-11
Ratio of operating cash inflow to net debt servicing costs	>1.0	2.4
Debt servicing costs as a % of turnover	<7.5%	3.3%
I&E Reserve (excluding pension liability)	>£50m	£77.3m
Ratio of total debt to total funds (excluding pension liability)	<1.0	0.5

Pension Schemes

The University operates three pensions schemes. The Universities Superannuation Scheme (USS) is open to all new staff while the Essex County Council Local Government Pension Scheme (LGPS) and the University of Essex Pension Scheme (UEPS) are both closed to new members. USS is a pooled scheme so is accounted for on a defined contribution basis.

On an FRS17 valuation basis, the combined deficits in LGPS and UEPS have increased by £546k from £16.8m to £17.3m as at 31 July 2011. Funding levels, on an FRS17 basis, are: USS 86% (31 March 2011), LGPS 67% (31 July 2011) and UEPS 92% (31 July 2011).

USS has also undergone a prolonged review of its cost and benefit structure in order to ensure it can remain financially viable. Changes will be implemented in October 2011, resulting in existing members of staff paying increased contributions, rising from 6.35% to 7.5%, while new members of staff will join a new career average revalued earnings section and contribute 6.5% of their earnings. The employer's contribution does not change. The outcome of a triennial actuarial revaluation for USS in due in autumn 2011.

During 2010 the University undertook a review of the UEPS pension scheme and proposed a number of changes. This followed the results of its actuarial revaluation which would have led to an increase in the employers contribution rate. The changes were implemented in August 2011 following a statutory consultation period. The employee's contribution rate has increased from 6.0% to 7.0% and the employer's contribution rate has reduced from 21.5% to 19.4%.

The University has agreed funding plans to cover increases in future service cost and past service deficits of its two closed defined benefit pensions schemes.

Sustainability

Sustainability is a core principle of all of the research, teaching and business activities at the University of Essex. Through these activities, we seek a future for Essex as an educational model for healthy and sustainable living. The University aspires to be one of the greenest in the country, and to act as an exemplar both to other institutions of higher education and to regional bodies.

A Green Task Force co-ordinates and implements the University's sustainability policy with membership drawn from staff and students.

A newly formed Sustainability Strategy Group has been established to oversee the University's carbon management plan, approved by Council on 19 July 2010. The plan affirms the University's commitment to making a full contribution to tackling the issue of climate change, supporting the efforts of the UK as a whole and higher education sector in particular. The Plan sets out the following University objectives and targets:

	Objective	Target date	Status
1.	**Carbon Reduction**		
	1.1 Reduce absolute Scope 1 and Scope 2 greenhouse gas emissions by 35% in CO2e terms by 2020 on a 2005 baseline. A target of 35% has been chosen as it is what is believed to be challenging but achievable by the University given the constraints of inefficient buildings and budgets. However, it is still broadly in line with HEFCE sector targets.	2020	In progress
	1.2 Meet an interim target to reduce Scope 1 and Scope 2 emissions by 20% by 2015 on a 2005 baseline.	2015	On going
2.	**Carbon Reporting and Accounting**		
	2.1 Instigate annual monitoring and reporting of greenhouse gas emissions in conformity with the Greenhouse Gas Protocol.	July 2011	Achieved
	2.2 Put systems in place to enable the University to collect data on Scope 3 emissions and include these in reporting, including: ■ waste recycling/recovery and disposal; ■ water consumption; ■ transport of staff and students to the University and between sites; ■ conference and business travel and travel associated with placements and field trips; ■ procurement.	July 2012	In progress
	2.3 Gain Carbon Trust Standard certification.	March 2011	Achieved
3.	**Operational**		
	3.1 The University Estate will be converted to low carbon buildings by:		
	■ ensuring all new buildings are designed to achieve BREEAM Excellent by 2011;	2011	Achieved
	■ ensuring that all refurbishment projects include an assessment of measures to improve energy and carbon efficiency;	2011	Achieved
	■ where practicable and with due regard to the palette of existing materials on campus, all building materials will be sourced from the BRE Green Guide to specifications categories A-C from 2010.	2011	Achieved
	3.2 Energy efficiency and whole life cost considerations will form a key part of procurement from 2010. These considerations will particularly apply to ICT and other electrical equipment procurement criteria.	July 2010	In progress
	3.3 The University has instituted a revolving Green Fund for minor energy efficiency projects. This will be supported and enhanced in the future.	July 2011	Achieved
	3.4 The University will assess onsite renewable and ambient energy options and report on their viability to achieve the carbon reduction milestones.	July 2010	Achieved
	3.5 The use and occupancy of space will be assessed and optimised to ensure the most energy and carbon efficient use of campus space.	2013	Achieved

Future Outlook

As the UK higher education sector enters into a prolonged period of transition following the publication of the Higher Education White Paper *Putting Students at the Heart of the System*, the University has already begun to lay down foundations which will place it in a position of strength to address future challenges. The successful completion of a voluntary staff severance scheme in 2011 will generate significant staff cost savings from 2011-12 onwards and the delivery of the capital programme, with a number of major investments due for completion in 2013, will enhance the University's competitive prospects.

The Government, as part of its public expenditure reduction programme, began to cut public funding for universities towards the end of 2009-10, following the formation of the Coalition Government in May 2010. Further funding cuts were imposed in 2010-11 and will continue into 2011-12 and beyond. It is not until 2012-13 that a new tuition fee income stream will begin to grow, replacing the loss of teaching grant over the following two years.

This change will result in a significant shift in how higher education at undergraduate level is funded, shifting from the general UK taxpayer (via teaching block grants) to future taxpaying graduates (via tuition fee loan repayments made to the Government from future earnings).

The University faces two externally imposed challenges:

- managing the transition from one funding system to another, especially dealing with the timing mismatch as public funding cuts that commenced in 2008-09 are preceding the introduction of a new tuition fee system in 2012-13. This challenge is compounded by the technical complexity of the new system, much of the detail of which has still to be developed by the Government;

- the University has set its home/EU undergraduate tuition fee at £9,000 per year for new entrants in 2012. This has been combined with the introduction of a 'core and margin' system of student number control designed to encourage competition between institutions. How prospective students and competitor institutions respond to these changes is an unknown quantity and puts greater emphasis on the University adopting the right strategy and tactical response. The challenge of this change for 2012-13 is mitigated somewhat by its limited nature, that is to say only entrants with A-level grades of AAB or equivalent are not subject to any form of student number control, but the White Paper is signalling greater market deregulation beyond 2012-13.

Student demand has proven resilient in 2011-12 with the University meeting all of its recruitment targets whilst avoiding any significant financial penalty. As the recruitment cycle for 2012 commences early indications of interest in the University from prospective students at open days has also been buoyant with increased attendance on previous years.

Realistic levels of nationally determined pay awards in recent years have helped the University cope with funding cuts in this transitional period. However, at national level the trade unions are agitating against a number of issues, principally the USS pensions reform that will be implemented following an extensive consultation exercise, along with other issues such as job security and pay. The sector may experience some form of industrial dispute over the coming year and this could have an adverse impact on the student experience.

Because the sector is in an extended transitional period, University Council has suspended its financial target of achieving a surplus equating to 3.5% of total income. This also reflects a decision to invest ahead of the new tuition fee system with an accelerated long-term maintenance programme, funding widening participation initiatives previously funded by the Government and increased marketing activity. This suspension will last only as long as the transition to the new system which will be complete by 2014-15. The University financial planning has been predicated on achieving its 3.5% target for the 2014-15 financial year onwards and each academic faculty has been set a financial target to ensure this overall objective is met.

The University is not complacent about the future challenges it faces. A review of the University vision and strategic plan has recently commenced.

Risk

The University's Risk Management Group reviews the risk register three times a year and reports to the Audit and Risk Management Committee. Risks are categorised under a number of main headings as set out below, outlining the principal risks faced by the University:

Strategic	Significant fall in overseas student recruitment due to economic or political factors; significant fall in teaching reputation and student experience; and significant fall in research reputation. The University has maintained its research quality ratings and maintained a top 20 student satisfaction ranking in the National Student Survey. The Government's immigration policy has been clarified and while entry into the UK by non-EU citizens is to be restricted this appears to be being implemented in a way that provides some degree of protection from established higher education institutions who demonstrate compliance with UK Border Agency requirements. However, it is too early to judge whether the new immigration controls will have an adverse impact or not.
Operational Risk categories:	
Finance	The funding environment is changing and there is still a considerable amount of missing technical detail. There is also a risk that the Government will roll out a succession of ad hoc policy initiatives in an ill-considered fashion with unintended consequences. The University has begun to deliver a large capital investment plan with substantial loan finance. It is benefiting from a loan repayment holiday until November 2013 on its £122m loan facility. As debt servicing begins to escalate so cash outflows will increase making it imperative that the University reaps the financial return from the investment.
Academic	Poor quality audit report or significant student retention problem would both pose risks. The University places considerable emphasise on managing academic quality.
Human resources	The industrial relations landscape at national level is more volatile and diffuse as trade unions at a national level conflate a range of different economy wide issues such as pensions reform, public funding cuts, perceived increased job insecurity and low pay awards. Industrial action has the potential to be disruptive and damaging to the student experience.
Physical	Incomplete evacuation of a building in an emergency; loss of sensitive material from laboratories.
Health & Safety	Failure of senior management or trustees to comply with increasing health and safety legislation; failure to manage organisational causes of stress.
Data	Loss of reputation through data management errors.
Force Majeure	Outbreak of communicable disease such as swine flu, although the official 2009 pandemic had no noticeable impact at the University.

Public Benefit

The University's charitable aims

The University's Royal Charter sets out the objectives which form its charitable purpose "to advance education, scholarship, knowledge and understanding by teaching and research for the benefit of individuals and society at large".

Members of Council are the trustees of the University and decision making pays due regard to the Charity Commission's guidelines on charitable purpose and public benefit, in particular, *The Advancement of Education for the Public Benefit* (Charity Commission, December 2008) and *Public Benefit and Fee Charging* (Charity Commission, December 2008).

Teaching

Our undergraduate and postgraduate students benefit from studying at a research-intensive university, where they can learn from academics who are at the forefront of their fields and are involved in active research projects.

The number of students we teach continues to grow with 10,167 students (Full-Time Equivalent) at Essex in 2010-11 compared to 9,723 in 2009-10.

The high quality of our teaching is shown by the feedback we have received. In the 2011 National Student Survey, 88% of students expressed overall satisfaction with their course, placing us in the top 20 for mainstream English universities. In the Postgraduate Taught Experience Survey, 90% said their overall experience had met or exceeded their expectations.

We constantly look to improve the teaching experience. This year we have launched the University Skills Centre to help students improve their study skills and extended our Big e initiative to offer an even wider range of activities orientated around developing employability skills. This will help our graduates make an immediate impact when they go into their future careers.

We are continuing to invest in improving the student learning experience through our £200m plus capital investment plan. Our plans for the coming years include a new Student Centre and library extension and also a new home for the Essex Business School at our Colchester Campus. In Southend we are starting work on a new library and learning development in partnership with Southend-on-Sea Borough Council and South Essex College.

Research

We are one of the leading research-intensive universities in the country and in the last Research Assessment Exercise (RAE, December 2008), we were ranked ninth nationally.

We have continued to build on this reputation in 2010-11 by taking forward projects which have an impact at a local, national and global level.

Our research feeds directly into the learning experience for our undergraduates and postgraduates. We are committed to knowledge exchange and sharing our research expertise with government bodies, non-governmental organisations and business.

In 2010-11, we attracted record levels of research funding totalling £25.5m which underlines our commitment to delivering outstanding research which meets the needs of society. Research highlights this year included the release of the initial findings of Understanding Society, the biggest study of its kind ever undertaken in the UK. The findings provide insights into a huge range of issues including attitudes to poverty, family life and employment during the economic downturn. Our work will increase public understanding, provide resources for researchers and inform policy making.

Health-related research at Essex includes projects on the early signs of breast cancer, the development of Parkinson's Disease and the declining fitness of children. This research will assist treatment and inform the development of health-related policies.

The Essex Autonomy Project has been bringing together social workers, psychiatrists and lawyers to discuss the implications of the Mental Health Act and Mental Capacity Act to assist the development of best practice.

We are part of the Photonics Hyperhighway project with Essex researchers collaborating with researchers at the University of Southampton to investigate how to deliver the ultra-high capacity IT infrastructure needed in the future.

Our four Global Challenge projects continue to bring together academics across disciplines to address issues of worldwide significance. One of these projects sees the Essex Transitional Justice Network working on issues faced by countries moving from a repressive to a democratic or constitutional regime, or from a state of civil war and unrest to peace. Projects undertaken this year include reports and briefing papers for the United Nations, Foreign and Commonwealth Office and International Criminal Court.

We are committed to the highest ethical and professional standards and have reviewed our procedures this year to ensure the integrity of the research we undertake.

Increasing access

We work to ensure all students with the potential to succeed, no matter what their background, have the opportunity to come to Essex and enjoy the benefits of studying at a university with an international reputation for research.

We admit students solely according to ability without reference to ethnic origin, class, religion, sexuality or any other characteristic. Our Access Agreement with the Office of Fair Access (OFFA) aims to ensure no student is deterred from applying due to financial hardship.

Our bursaries provide financial support to students from low income households and our scholarships assist academically-gifted undergraduate and postgraduate students. In 2010-11 we awarded more than 2,000 bursaries and scholarships to support students from low income households and gifted undergraduate and postgraduate students.

We fund a significant number of outreach activities to target students from low income backgrounds, students from low participation neighbourhoods, mature students, students with disabilities and young people in care. We also support parents, carers, teachers and advisers.

In 2009-10 our Outreach team took part in 186 activities involving 120 schools across Essex, Suffolk and London with a total of 10,632 beneficiaries.

This work helps us consistently exceed our HESA (Higher Education Statistical Agency) Widening Participation Performance Indicator benchmarks for students from under-represented groups.

The latest figures available, for 2009-10, show 32.6% of our intake of young full-time first degree students were from social classes 4, 5, 6 and 7 and 14.6% were from low participation neighbourhoods. This surpasses comparator institutions and the sector average.

In 2010-11 we introduced a programme of support targeted at mature students which was shortlisted for a Times Higher Education award, and in 2011-12 we will be extending our targeted support.

Due to the changes to student funding in 2012, we have reviewed our financial support packages for students from low income households and will work closely with the Students' Union to make sure these have the biggest possible impact.

Knowledge exchange and enterprise

The University is committed to stimulating economic, cultural and social development, and knowledge exchange activity is valued and encouraged.

Our Research and Enterprise Office supports companies to access our expertise, including Knowledge Transfer Partnerships, and co-ordinates a programme of training informed by our research. This year, events have included sessions on the future of the internet, the budget and fitness in the workplace.

The Business Hub at our Southend Campus is a focus for our services, facilities and events for the business community and a Business Incubation Centre offers space and support to fledgling businesses.

Our departments and centres offer the wider community the chance to benefit from our research expertise through a huge range of short courses, training and public lectures.

For example, our Department of History delivers popular evening courses, Essex Business School provides a wide range of training for companies and our School of Health and Human Sciences offers Continuing Professional Development courses to clinicians and health care professionals.

Our academics actively take part in Philosophy Cafés, Twilight Zone Cafés, Language Learning Cafés and Café Scientifique to increase informal engagement with the public.

Students at Essex are also involved in putting the knowledge they learn on their courses into practice through practical initiatives such as the Essex Law Clinic in our School of Law.

Our three theatres at our Colchester, Loughton and Southend campuses all host numerous public performances including shows featuring our students. This year East 15 Acting School has developed several productions inspired by local history and culture.

Art Exchange, the University gallery, has a year-round programme of events including an annual exhibition curated by students on our MA in Gallery Studies and Critical Curating.

ESCALA, the Essex Collection of Art from Latin America, which comprises more than 700 works, also provides resources for academic study and arts education.

We have started work on a 40-acre research park, the Knowledge Gateway, to provide a future hub for research and development and business activity in the social sciences and sciences. A flagship building housing our Institute for Democracy and Conflict Resolution will be at the heart of the development.

Corporate Governance Statement

Corporate Governance and Accountability Arrangements

The University is a body incorporated by Royal Charter. The University's governing body is Council, which is committed to achieving high standards of corporate governance in line with accepted best practice.

The University Council

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

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

The University is fully compliant with the Committee of University Chairman (CUC) Governance Code of Practice issued in March 2009.

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

The Committees of Council

The Council delegates some business to a number of committees:

- Audit and Risk Management;
- Equality and Diversity;
- Finance and Strategy;
- Health and Safety;
- Nominations;
- Remuneration.

All of these committees are formally constituted with published terms of reference. With the exception of the Health and Safety Committee, the chair of each committee is a lay member of Council. The disclosures in relation to these committees follow those in respect of Council itself.

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

The responsibilities of the Audit and Risk Management Committee include:

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

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

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

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

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

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

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

The University Senate

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

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

The University Court

The University Court is a formal body established under the Charter and Statutes whose main function is to receive a report from the Vice-Chancellor on the workings of the University, along with receiving the Financial Statements.

Responsibilities of the Council

The Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

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

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

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

The Council has taken reasonable steps to:

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

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

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

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

The following tables show the attendance of members of the University Council during 2010-11 at Council and its key committees, along with other members of committees who are not trustees or members of Council.

Council Members (Trustees)

Name	Council		Audit and Risk		Finance and Strategy		Nominations		Remuneration	
	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended	Eligible to Attend	Actually Attended
Ms Victoria Bartholomew (2)	3	1								
Mr David Boyle	4	4			6	6				
Mr Richard Cornes	4	3								
Dr Pam Cox	4	3			6	5	3	2		
David Currie	4	4			6	5				
Mrs Celia Edey	4	4	3	3						
Ms Dee Evans	4	3					3	1		
Mr Bill Gore	4	4			6	6	3	3	1	1
Mr Paul Gray	4	3			6	4			1	1
Prof Martin Henson	4	2								
Prof Peter Hulme	4	4								
Ms Vivien Insull (1)	4	1								
Ms Judith Judd	1	4								
Mr Kishor Krishnamoorthi	4	3								
Dr Aulay Mackenzie	4	4								
Dr Laura Mansel-Thomas (5)	4	4	3	2						
Prof Rob Massara	4	4			6	5				
Prof Richard Nicol	4	3							1	1
Ms Deborah Regal (7)	4	0	3	0						
Prof Colin Riordan	4	4			6	5	3	3	1	0
Prof Rainer Schulze	4	3								
Mrs Rosy Stamp	4	4							1	1
Ms Auriol Stevens	4	4			6	6	3	3		
Mr Phillip Tolhurst	4	4			6	4			1	1
Prof Graham Underwood	4	4								
Dr Marion Wood	4	3								
Other Committee members (who are not trustees of the University)										
Mr Andrew Connolly					6	6				
Prof Andy Downton (3)					4	4				
Mr Peter Giblin			3	1						
Dr John Grote			3	2						
Mrs Elizabeth Lloyd			3	1						
Prof Jules Pretty					6	5				
Dr Tony Rich					6	6	3	2	1	1
Prof Nigel South					6	5				
Mr Brian Stapleton (6)			2	2						
Mr Riccardo Tazzini			3	2						
Prof Jane Wright (4)					2	2				

Council
(1) Ms Vivien Insull resigned on 31 December 2010
(2) Ms Victoria Bartholomew joined on 01 January 2011

Finance & Strategy
(3) Professor Andy Downton resigned on 29 April 2011
(4) Professor Jane Wright joined on 03 May 2011

Audit & Risk Management
(5) Laura Mansel-Thomas joined on 01 August 2010
(6) Brian Stapleton joined on 16 November 2010
(7) Deborah Regal resigned 31 July 2011

Independent Auditor's Report to the Members of Council of the University of Essex

We have audited the financial statements of the University of Essex for the year ended 31 July 2011 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes 1 to 32. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the governing body in accordance with the financial memorandum effective August 2010. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the board of governors as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the governing body and auditor

As explained more fully in the Governing Body's Responsibilities Statement, the governing body is responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the governing body; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's affairs as at 31 July 2011 and of its surplus for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education.

Opinion on other matters prescribed by the Higher Education Funding Council for England Audit Code of Practice

In our opinion:
in all material respects, income from the funding council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2011 have been applied for the purposes for which they were received; and
in all material respects, income during the year ended 31 July 2011 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council.

Matter on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice requires us to report to you if, in our opinion the Statement of Internal Control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the University.

Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans, UK
28 November 2011

Accounting Policies

Accounting Convention

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

Basis of Consolidation

The Financial Statements comprise the consolidated results of the University of Essex and its subsidiaries and the University's share of the results and reserves of its joint venture companies. These subsidiaries undertake activities which, for legal and commercial reasons, are more appropriately operated through limited companies. Their activities include a hotel, conferences and consultancy services for a wide variety of commercial organisations and individuals, the rental of student residences, the acquisition, protection and licensing of intellectual property from the University and the holding, development and disposal of land or granting of long-leases in relation to the Knowledge Gateway project.

The subsidiary companies transfer all taxable profits to the University through Gift Aid. Joint ventures are consolidated according to the proportionate share the University has in each.

Full details of the activities of the Universities subsidiaries and joint ventures are disclosed in Note 26

The consolidated Financial Statements do not include those of the University of Essex Students' Union as it is a separate entity with its own governance and reporting arrangements. The grant to the Students' Union is disclosed in Note 8, and the Union's financial results are summarised in Note 27.

Recognition of Income

Income from HEFCE block grants are accounted for in the period to which they relate.

Income from HEFCE revenue grants for specific purposes is included to the extent that expenditure is incurred during the year.

Grants and donations received in respect of expenditure on fixed assets are treated as deferred capital grants and released to the income and expenditure account in line with depreciation, over the useful economic life of the asset.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income

Recurrent income from grants and contracts, consultancy and other services rendered are recognised to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Any increase in value arising on the revaluation of fixed asset investments is credited to the revaluation reserve via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus.

Accounting for Donations and Endowment Funds

Where donations are to be retained for the benefit of the University as specified by the donors, these are accounted for as endowments. There are three categories of endowment:

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University;
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets and the University can apply the capital as well as the income to fund the specified objective;
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

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

Endowments with restrictions are recognised when relevant conditions have been met.

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

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Increases or decreases in value arising on the revaluation of endowment assets (other than land) i.e. the appreciation or depreciation of endowment assets, or on their disposal, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund and is reported in the statement of total recognised gains and losses.

Receipts and Payments made on behalf of others

The University receives and disburses various funds on behalf of funding bodies and these are known as 'agency arrangements'. This includes the payment of HEFCE grant to academic partners, NHS bursaries and Access to Learning Funds. These funds are excluded from the University's income and expenditure account as the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction. Receipts and disbursements made under agency arrangements are disclosed in Note 29.

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 other investments held as part of the University's treasury management activities. They exclude such assets held as endowment asset investments.

Investments

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

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

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

Financial Instruments

Financial instruments are classified and accounted for according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments.

An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities.

The university uses derivative financial instruments called interest rate swaps to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a variable rate to a fixed rate. Interest differentials under these swaps are recognised by adjusting net interest payable over the periods of the contracts. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, then it is marked to market and any resulting profit or loss recognised at that time.

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.

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.

Land and Buildings

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

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

Fixed Asset Impairments

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Intangible Assets & Goodwill

Expenditure on assets that do not have physical substance but are identifiable and controlled by the University are capitalised at historical cost when it will bring benefits for more than one financial year, this includes goodwill. Goodwill has arisen on the acquisition of business from Insight Ltd when the partnership ended in 2008.

The cost is amortised to the Income and Expenditure account over the useful economic life of the asset which in the case of the above goodwill is 11 years from 2008 to 2019.

Heritage Assets

The University holds various non-operational assets in the form of a collection of paintings, prints and similar artworks mainly dating from the 20th century, which were acquired through a combination of donations and purchases. The University does not actively seek to add to the collection, other than through the commissioning of photographic portraits of senior Trustees. It is the University's intention to maintain the collection and no disposals are currently foreseen. The majority of the collection is on public display in the library and a record of the items is held by the University for insurance purposes. These assets are included in the balance sheet at market valuation. Heritage assets are not depreciated.

Equipment

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

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

- motor vehicles and other general equipment - between five and ten years dependent upon the expected useful economic life;
- computer equipment - three years;

Where equipment is acquired with the aid of grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected useful life of the equipment.

Equipment acquired for specific research projects is written off in the year of acquisition along with its matching grant.

Depreciation

Where any asset is depreciated, no charge is made to the Income and Expenditure Account in the year of acquisition. However, in the year of disposal a full year charge is made regardless of the timing of the disposal.

No depreciation is charged on assets in the course of construction.

Stocks

The stocks are for general maintenance, catering supplies of food and liquor, computers and computer spares, stationery and consumables. They are valued at the lower of cost or net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the Institution has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability. Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow. Contingent assets are disclosed by way of a note, where there is a possible, rather than present, asset arising from a past event.

Pension Schemes

The University participates in 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. All three schemes are defined benefit schemes and are contracted out of the State Second Pension (SP2).

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

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

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

In addition to the three main schemes the University has volunteered to be a pilot employer for the NEST (National Employment Savings Trust) pension scheme for staff employed under UECS terms and conditions. Being a pilot employer for the new scheme means early adoption of the initiative which does not become statutory until 2014. The schemes will be monitored and regulated by the DWP, The Pensions Regulator and NEST Corporation.

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 Para 1 of Schedule 6 of the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 478-488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

All subsidiary companies are liable to Corporation Tax and Value Added Tax in the same way as any other commercial organisation.

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

Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Deferred Tax

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not to be recovered. Deferred tax assets and liabilities are not discounted.

Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Balances between the University and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity; the part relating to the University's share is eliminated.

Joint venture entities

The University's share of income and expenditure in joint venture entities is recognised in the University's income and expenditure account in accordance with FRS 9. Similarly the University's share of assets and liabilities in associate entities is recognised in the University's balance sheet in accordance with FRS 9. The gross equity method is used when consolidating joint venture entities.

Consolidated Income and Expenditure Account

For the year ended 31 July 2011

	Note	**2010-11 £'000**	2009-10 £'000
Income			
Funding council grants	1	**36,333**	35,775
Tuition fees and educational contracts	2	**56,864**	54,853
Research grants and contracts	3	**25,493**	21,103
Other income	4	**45,622**	44,290
Endowment and investment income	5	**562**	336
Total income: Group and share of joint ventures		**164,874**	156,357
Less: share of income from joint ventures	4	**(18,628)**	(17,397)
Total income		**146,246**	138,960
Expenditure			
Staff costs	7	**79,693**	75,811
Other operating expenses	8	**55,147**	48,164
Depreciation and amortisation	8	**6,686**	5,702
Finance charges	8	**3,905**	3,046
Total expenditure		**145,431**	132,723
Surplus on continuing operations after depreciation of tangible fixed assets at cost		**815**	6,237
Share of profit in joint ventures	26	**1,162**	801
Surplus for the financial year		**1,977**	7,038
Transfers (to)/from endowment funds	19	**(116)**	97
Surplus for the financial year retained within general reserves	6	**1,861**	7,135

All items of income and expenditure arise from continuing operations.

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2011

	Note	**2010-11 £'000**	2009-10 £'000
Surplus on continuing operations after depreciation of assets at cost, disposal of assets and tax		**1,977**	7,038
Capitalisation of heritage assets	10	**0**	798
Unrealised gains on investments	11	**451**	722
Appreciation of endowment asset investments	19	**424**	152
New endowments	19	**5**	1,000
Actuarial gains in respect of pension schemes	25	**(2,023)**	3,715
Total recognised gains relating to the year		**834**	13,425
Increased holding in joint ventures		**188**	220
Total recognised gains since last report		**1,022**	13,645

Reconciliation

	Note	**2010-11 £'000**	2009-10 £'000
Opening reserves and endowments		**67,257**	58,110
Opening pension deficit	25	**(16,801)**	(21,299)
Recognised gains relating to the year		**1,022**	13,645
Closing reserves and endowments		**51,478**	50,456

Balance Sheet

As at 31 July 2011

	Note	Consolidated 2010-11 £'000	Consolidated 2009-10 £'000	University 2010-11 £'000	University 2009-10 £'000
Fixed assets					
Intangible assets	12	**1,090**	1,226	**1,090**	1,226
Tangible assets	10	**189,218**	182,239	**166,369**	160,391
Investments	11	**4,663**	6,237	**25,410**	22,200
Investment in joint ventures					
Share of gross assets	26	**40,863**	36,641	**0**	0
Share of gross liabilities	26	**(13,950)**	(10,568)	**0**	0
		220,794	214,549	**191,779**	182,591
Endowment assets	13	**5,066**	4,521	**5,066**	4,521
Current assets					
Stocks and stores		**271**	295	**186**	295
Debtors - amounts due within one year	14	**8,838**	9,447	**8,053**	9,988
Debtors - amounts due after more than one year	14	**122**	0	**18,977**	19,555
Investments		**5,058**	5,000	**5,058**	5,000
Cash at bank and in hand		**24,959**	15,931	**20,748**	14,861
		39,248	30,673	**53,022**	49,699
Creditors - amounts falling due within one year	15	**(31,807)**	(29,417)	**(30,497)**	(29,124)
Net current assets		**7,441**	1,256	**22,525**	20,575
Total assets less current liabilities		**234,391**	221,552	**220,460**	208,913
Creditors - amounts falling due after more than one year	16	**(75,641)**	(67,629)	**(75,641)**	(67,629)
Provisions for liabilities and charges	17	**(1,379)**	(405)	**(1,379)**	(405)
Total net assets excluding pension liability		**157,371**	153,518	**143,440**	140,879
Pension liability	25	**(17,347)**	(16,801)	**(17,347)**	(16,801)
Total net assets including pension liability		**140,024**	136,717	**126,093**	124,078
Deferred capital grants and gifts	18	**62,664**	59,877	**62,664**	59,877
Joint venture deferred capital grant reserve	31	**25,882**	26,384	**0**	0
Endowments					
Restricted Expendable	19	**4,661**	4,165	**4,661**	4,165
Restricted Permanent	19	**405**	356	**405**	356
		5,066	4,521	**5,066**	4,521
Reserves					
Income and expenditure account excluding pension reserve	21	**62,586**	62,014	**74,537**	75,759
Pension reserve	25	**(17,347)**	(16,801)	**(17,347)**	(16,801)
Income and expenditure account including pension reserve	21	**45,239**	45,213	**57,190**	58,958
Revaluation reserve	20	**1,173**	722	**1,173**	722
		46,412	45,935	**58,363**	59,680
Total Funds		**140,024**	136,717	**126,093**	124,078

The Financial Statements on pages 19 to 47 were approved by the Council of the University on 28 November 2011 and signed by:

PROFESSOR C. RIORDAN
Vice-Chancellor

D. CURRIE
Chair of Council

A. CONNOLLY
Director of Finance

Consolidated Cash Flow Statement

For the year ended 31 July 2011

	Note	**2010-11 £'000**	2009-10 £'000
Net cash inflow from operating activities	23	**10,664**	17,149
Returns on investment and servicing of finance			
Income from endowment asset investments		**230**	73
Income from investments		**332**	263
Interest payable		**(3,505)**	(1,832)
		(2,943)	(1,496)
Capital expenditure and financial investment			
Purchase of tangible fixed assets (note 10)		**(14,110)**	(39,905)
Sale of fixed asset investments		**0**	1,343
New endowments received		**5**	1,000
Endowment funds invested		**(200)**	(650)
Deferred capital grants received		**5,446**	5,018
		(8,859)	(33,194)
Cash outflow before management of liquid resources		**(1,138)**	(17,541)
Management of liquid resources			
(Increase) / decrease in short term investments		**(58)**	8
		(58)	8
Financing			
Loan repayment in the year		**(950)**	(950)
New loans received		**9,069**	23,953
		8,119	23,003
Increase in cash in the year		**6,923**	5,470

Reconciliation of net cash flow to movement in net debt

Increase in cash in the year	24	**6,923**	5,470
Cash inflow /(outflow) from management of liquid resources		**58**	(8)
Net loans received in year		**(8,119)**	(23,003)
Increase in net debt in the period		**(1,138)**	(17,541)
Net debt at 1 August 2010		**(45,168)**	(27,627)
Net debt at 31 July 2011		**(46,306)**	(45,168)

Notes to the Financial Statements

For the year ended 31 July 2011

	2010-11 £'000	2009-10 £'000
1 Funding council grants		
Recurrent - teaching grant	**22,106**	22,221
Recurrent - research grant	**9,302**	9,778
Special grants	**2,905**	1,901
Deferred capital grants released in year - buildings	**1,121**	1,112
Deferred capital grants released in year - equipment (note 18)	**899**	763
	36,333	35,775
2 Tuition fees and educational contracts		
Full-time HE tuition fees		
UK and EU students charged home fees	**22,192**	20,244
Students charged overseas fees	**25,610**	25,215
Part-time credit-bearing fees	**922**	1,089
Non-credit-bearing tuition fees	**1,822**	2,651
NHS contracts	**6,263**	5,616
Research support grants	**55**	38
	56,864	54,853
3 Research grants and contracts		
Research Councils	**19,767**	16,623
UK-based charities	**884**	604
UK central government, local authorities and health authorities	**803**	824
UK industry, commerce and public corporations	**364**	286
European Union government bodies	**2,862**	2,183
Other overseas	**768**	469
Other sources	**20**	41
Deferred capital grants (non-funding council) released in year - equipment (note 18)	**25**	73
	25,493	21,103
4 Other income		
Other services rendered:		
Income from academic partnerships	**1,935**	2,002
Other sources	**427**	373
Commercial services income	**19,010**	15,619
Deferred capital grants (non-funding council) released in year - buildings	**614**	611
Rental income	**771**	617
Other income	**4,237**	7,671
Income from joint ventures	**18,628**	17,397
	45,622	44,290

Notes to the Financial Statements

For the year ended 31 July 2011

		2010-11 £'000	2009-10 £'000
5	**Endowment and investment income**		
	Income from fixed asset investments	**166**	193
	Income from expendable endowments (note 19)	**217**	50
	Income from permanent endowments (note 19)	**13**	23
	Income from short term investments	**166**	70
		562	336
6	**Surplus for the year**		
	The surplus on continuing operations for the year is made up as follows:		
	University's surplus for the year	**255**	6,583
	Surplus generated by subsidiary undertakings and transferred to the University under gift aid	**507**	0
	Profits generated by subsidiary undertakings and joint ventures	**1,099**	552
		1,861	7,135
7	**Staff costs**		
	Wages and salaries	**62,566**	60,048
	Social security costs	**4,873**	4,712
	Other pension costs	**12,254**	11,051
		79,693	75,811
	Emoluments of the Vice-Chancellor for year to 31 July	**182**	182

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to USS are paid at the same rate as for other employees and for the Vice-Chancellor these amounted to £31,840 (2009-10: £31,177).

Compensation for loss of office paid to senior members of staff for 2010-11 was £90k (2009-10: £0).

Other pension costs include pension contributions made by the University on behalf of employees who have elected to reduce their wages and salaries when the University introduced its Pensions Plus scheme in April 2009.

	Number of Staff 2010-11	Number of Staff 2009-10
Remuneration of higher paid staff, excluding employer's pension contributions:		
£100,000-£109,999	**5**	6
£110,000-£119,999	**1**	0
£120,000-£129,999	**3**	3
	9	9

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

	2010-11	2009-10
Academic staff	**602**	585
Research staff	**113**	101
Senior support staff	**368**	361
Other support staff	**348**	333
General support staff	**405**	405
	1,836	1,785

Notes to the Financial Statements

For the year ended 31 July 2011

8 Other operating expenses

	2010-11 £'000	2009-10 £'000
Auditor fees	**116**	102
Books and periodicals	**2,074**	1,904
Early retirements and severances	**2,748**	642
Equipment and consumables	**4,524**	4,722
Food and drink	**1,152**	1,059
Gas, water and electricity	**3,301**	4,378
Grants to Students' Union	**1,114**	1,324
Insurance	**607**	513
Long-term maintenance programme	**3,794**	3,137
Minor works	**468**	539
Other expenses	**11,337**	10,289
Postage and telephones	**908**	957
Printing and stationery	**1,372**	1,355
Professional and consultancy fees	**2,771**	2,558
Rates and rental of premises	**590**	335
Repairs and routine maintenance of estates	**2,658**	3,304
Research survey fieldwork	**9,119**	5,903
Scholarships (fee waivers and bursaries)	**4,166**	2,887
Travel and subsistence	**2,328**	2,256
	55,147	48,164

	2010-11 £'000	2009-10 £'000
Auditor fees include:		
Fees payable for audit of the University and its subsidiary companies	**62**	49
Non audit services	**64**	53
	126	102

Non audit services includes £10k charged to the Meadows project for accountancy advice to be charged against a future capital receipt.

	2010-11 £'000	2009-10 £'000
Depreciation and amortisation		
The depreciation and amortisation charge is represented by:		
Deferred capital grants released (Note 18)	**2,659**	2,559
General income	**4,027**	3,143
	6,686	5,702

	2010-11 £'000	2009-10 £'000
Finance charges		
Bank Interest payable	**3,505**	1,832
Net charge on pension scheme (FRS17)	**400**	1,214
	3,905	3,046

9 Analysis of total expenditure by activity

	Staff costs £'000	Other operating expenses £'000	Depreciation and Amortisation £'000	Interest paid £'000	2010-11 Total £'000	2009-10 Total £'000
Academic departments and centres	**43,202**	**7,577**	**0**	**0**	**50,779**	47,364
Academic services	**6,817**	**5,159**	**0**	**0**	**11,976**	11,055
Research grants and contracts	**8,490**	**12,734**	**25**	**0**	**21,249**	17,334
Commercial Services	**4,790**	**6,988**	**2,120**	**3,003**	**16,901**	14,244
Premises	**4,558**	**8,050**	**4,350**	**0**	**16,958**	17,129
Administration and central services	**7,825**	**2,923**	**15**	**211**	**10,974**	10,100
Other services rendered	**358**	**687**	**0**	**0**	**1,045**	731
General educational services	**1,444**	**3,895**	**0**	**0**	**5,339**	5,071
Student and staff facilities	**1,936**	**3,772**	**40**	**23**	**5,771**	6,197
Early retirements and severances	**0**	**2,748**	**0**	**0**	**2,748**	642
Other expenses	**273**	**614**	**136**	**668**	**1,691**	2,856
Total per income and expenditure account	**79,693**	**55,147**	**6,686**	**3,905**	**145,431**	132,723

Trustees

No trustee has received any remuneration/waived payments from the group during the year. Ten trustees are also employees of the University but received no additional payment for acting as trustees.

The total expenses paid to or on behalf of 25 trustees was £nil (2010 - £nil to 25 trustees).

Notes to the Financial Statements

For the year ended 31 July 2011

10 Tangible fixed assets

	University				Companies			Consolidated
	Land and Buildings	Equipment	Assets in course of construction	Total	Land and Buildings	Equipment	Assets in course of construction	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost								
At 1 August 2010	143,973	8,635	40,319	192,927	24,699	10	388	218,024
Additions	**4,894**	**2,639**	**5,113**	**12,646**	**0**	**224**	**1,240**	**14,110**
Transfers	**37,127**	**2,646**	**(39,773)**	**0**	**0**	**0**	**0**	**0**
Disposals	**(810)**	**(188)**	**0**	**(998)**	**0**	**0**	**0**	**(998)**
At 31 July 2011	**185,184**	**13,732**	**5,659**	**204,575**	**24,699**	**234**	**1,628**	**231,136**
Depreciation								
At 1 August 2010	28,225	4,311	0	32,536	3,241	8	0	35,785
Charge for year	**4,193**	**1,894**	**0**	**6,087**	**463**	**0**	**0**	**6,550**
Disposals	**(435)**	**(94)**	**0**	**(529)**	**0**	**0**	**0**	**(529)**
Impairment	**112**	**0**	**0**	**112**	**0**	**0**	**0**	**112**
At 31 July 2011	**32,095**	**6,111**	**0**	**38,206**	**3,704**	**8**	**0**	**41,918**
Net book value								
At 31 July 2011	**153,089**	**7,621**	**5,659**	**166,369**	**20,995**	**226**	**1,628**	**189,218**
At 31 July 2010	115,748	4,324	40,319	160,391	21,458	2	388	182,239

University land and buildings include £5.089m (2009-10: £4.082m) in respect of freehold land which is not depreciated and leasehold properties with a net book value of £2.132m (2009-10: £2.185m).

Additions to University land and buildings in the year includes £6.353m for assets in the course of construction and for which no depreciation charge has been made. Land, buildings and equipment with a net book value of £69.228m (2009-10: £59.877m) have been funded by capital grants of £38.566m and other gifts and donations of £24.098m.

University equipment includes assets valued at £798k for works of art deemed to be heritage assets and which were capitalised in 2009-10. The University's external valuer (Lyon & Turnbull) carried out a full valuation of the collection at 18 February 2010. The values were established on the basis of the valuer's assessment of the likely replacement cost at suitable specialist retail outlets, having given consideration to quality and condition for a similar item.

11 Investments

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
At 1 August	**6,237**	6,868	**22,200**	21,981
(Disposals)/Additions	**(2,025)**	(1,353)	**2,759**	(503)
Revaluations credited to the revaluation reserve	**451**	722	**451**	722
At 31 July	**4,663**	6,237	**25,410**	22,200
Comprising:				
Equities	**4,616**	6,190	**4,616**	6,190
Subsidiary companies:				
University of Essex Knowledge Gateway Holdings Ltd	**0**	0	**12,391**	12,191
Universal Accommodation Group Ltd	**0**	0	**2,892**	2,892
University of Essex Commercial Services Ltd	**0**	0	**999**	30
Wivenhoe House Hotel Ltd	**0**	0	**4,465**	850
Other investments	**47**	47	**47**	47
	4,663	6,237	**25,410**	22,200

Land designated for the development of the Knowledge Gateway is held by the University of Essex Knowledge Gateway Holdings Ltd, a wholly owned subsidiary. Details of investments in all subsidiary undertakings are included in note 26. University of Essex Commercial Services changed its name from Wivenhoe Park Management Ltd in December 2010.

Notes to the Financial Statements

For the year ended 31 July 2011

12 Intangible assets

	Consolidated and University	
	2010-11	2009-10
Cost	**£'000**	£'000
At 1 August and 31 July	**1,498**	1,498
Amortisation		
At 1 August	**272**	136
Charge for the year	**136**	136
At 31 July	**408**	272
Net book value		
At 31 July	**1,090**	1,226

On 31 October 2008, the University ended its partnership with Insearch Ltd. The intangible asset represents the discounted value of the goodwill arising from acquisition of the business from Insearch Ltd. This is being amortised over an 11 year period from 2008 to 2019.

13 Endowment assets

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
Balance at 1 August	**4,521**	3,465	**4,521**	2,459
New endowments invested	**200**	1,650	**200**	2,656
Increase in market value of investments	**424**	152	**424**	152
Decrease in cash balances held for endowment funds	**(79)**	(746)	**(79)**	(746)
At 31 July	**5,066**	4,521	**5,066**	4,521
Represented by:				
Absolute return funds	**892**	639	**892**	639
Equities	**3,799**	1,402	**3,799**	1,402
Cash at bank held for endowment funds	**375**	2,480	**375**	2,480
Total endowment assets at market value	**5,066**	4,521	**5,066**	4,521

14 Debtors

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
Trade debtors	**2,305**	2,321	**1,475**	1,901
Student fees	**829**	265	**829**	265
Research debtors	**2,294**	5,244	**2,294**	5,244
Prepayments and accrued income	**3,410**	1,617	**3,410**	1,546
Amounts owed by subsidiary undertakings	**0**	0	**45**	1,032
Total amounts falling due within one year	**8,838**	9,447	**8,053**	9,988
Long-term debtors	**122**	0	**18,977**	19,555
	8,960	9,447	**27,030**	29,543

On acquisition of Universal Accommodation Group Ltd in 2004, the University loaned the company £21.779m in order for the company to repay its debt. During 2009, the repayment terms were re-negotiated with the University to achieve a repayment profile in line with funding projections for the company. Under this agreement, the loan will be fully repaid by 2024.

Notes to the Financial Statements

For the year ended 31 July 2011

15 Creditors: amounts falling due within one year

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
Secured loans	**950**	950	**950**	950
Payments received in advance	**11,396**	12,330	**11,396**	12,330
Research grants received on account	**7,749**	3,816	**7,749**	3,816
Trade creditors	**5,289**	3,200	**4,636**	3,045
Other creditors including taxation and social security	**1,600**	1,559	**1,600**	1,559
Accruals and deferred income	**4,823**	7,562	**4,166**	7,424
	31,807	29,417	**30,497**	29,124

16 Creditors: amounts falling due after more than one year

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
Loans secured on freehold property:				
repayable between one and two years	**950**	950	**950**	950
repayable between two and five years	**7,095**	4,963	**7,095**	4,963
repayable after five years	**66,546**	60,559	**66,546**	60,559
	74,591	66,472	**74,591**	66,472
Other creditors:				
repayable between one and two years	**150**	150	**150**	150
repayable between two and five years	**450**	450	**450**	450
repayable after five years	**450**	557	**450**	557
	1,050	1,157	**1,050**	1,157
Total	**75,641**	67,629	**75,641**	67,629

Other creditors includes amounts owing to Insearch Ltd. In October 2008, the University terminated its partnership arrangement with Insearch Ltd and a termination payment of £1.8m is payable in instalments between 2008 and 2019. The initial net discounted financial liability amounted to £1.25m using a discount rate of 4.31%.

During 2008-09, the University received £0.16m from HEFCE through the SALIX initiative as start-up funding to finance energy conservation and efficiency within the University. This will be non-repayable provided that the University is able to demonstrate that appropriate progress has been made.

In late 2008, the University secured additional loan facilities of £100m from Lloyds TSB to finance a new capital investment programme. As at 31 July 2011, the University had drawn down £40m (2010: £31m). The revolving facility extends to 2013, at which time the loan will term for 30 years. At the same time, the University re-financed an existing loan of £22m with Lloyds TSB. For both loans, a five-year repayment holiday has been negotiated.

The University also has a bank loan with Barclays Bank (£13m at 31 July 2011) repayable in equal instalments to March 2025.

The University's interest rate management policy is to fix a significant proportion of its interest costs. This is achieved through a mixture of fixed rate loans and interest rate swaps. As at 31 July 2011, 65% of total debt was managed in this way. From August 2011, a new interest rate swap of £40m commenced, which will increase this percentage.

17 Provisions for liabilities and charges

	Consolidated and University		
	Future severances £'000	**Early retirement £'000**	**Total £'000**
At 1 August 2010	307	98	405
Utilised in year	**(250)**	**(49)**	**(299)**
Charge for the year	**1,273**	**0**	**1,273**
At 31 July 2011	**1,330**	**49**	**1,379**

The future severances provision exists to meet the costs of employees who have agreed to take early retirement or voluntary severance under the University's restructuring scheme. It will be utilised during the next financial year. The early retirement provision has been set up to meet enhanced unfunded pension benefits for former staff who are members of the Local Government Pension Scheme. It is estimated that the provision will be fully utilised in the Income and Expenditure Account by 2016.

Notes to the Financial Statements

For the year ended 31 July 2011

18 Deferred capital grants and gifts

	Consolidated and University		
	Funding Council £'000	Other grants £'000	Total £'000
At 1 August 2010			
Buildings	35,936	22,286	58,222
Equipment	1,630	25	1,655
	37,566	22,311	59,877
Cash received			
Buildings	**679**	**2,426**	**3,105**
Equipment	**2,341**	**0**	**2,341**
	3,020	**2,426**	**5,446**
Released to income and expenditure account (notes 1, 3 and 4):			
Buildings	**(1,121)**	**(614)**	**(1,735)**
Equipment	**(899)**	**(25)**	**(924)**
	(2,020)	**(639)**	**(2,659)**
At 31st July 2011			
Buildings	**35,494**	**24,098**	**59,592**
Equipment	**3,072**	**0**	**3,072**
	38,566	**24,098**	**62,664**

Grants received in the year included £3.020m from HEFCE for both building costs and equipment. In addition The Edge Foundation gave £2.426m for the development of a hotel school at Wivenhoe House

Grants released to the income and expenditure account are to fund depreciation charges as shown in note 9.

19 Endowments and Linked Charities

	Consolidated and University					
	Total 2009-10 £000	Additions and transfers £000	Change in Market Value £000	Income £000	Expenditure £000	Total 2010-11 £000
Restricted permanent endowment funds	356	**3**	**37**	**13**	**(4)**	**405**
Restricted expendable endowment funds	4,165	**2**	**387**	**217**	**(110)**	**4,661**
	4,521	**5**	**424**	**230**	**(114)**	**5,066**
Linked charities	(371)	**0**	**0**	**18,819**	**(17,471)**	**977**
	4,151	**5**	**424**	**19,049**	**(17,585)**	**6,043**
Funds and charities with income below £100,000:						
Fellowships and scholarships	808	**1**	**75**	**46**	**(20)**	**910**
Prize funds	248	**4**	**23**	**15**	**(8)**	**282**
Chairs and lectureships	112		**11**	**4**	**(2)**	**125**
Other	1,375		**128**	**46**	**(19)**	**1,530**
Funds and charities with income over £100,000:						
Universiy Campus Suffolk	(371)	**0**	**0**	**18,819**	**(17,471)**	**977**
John Silberrad Trust Fund	1,978	**0**	**187**	**119**	**(65)**	**2,219**
Fellowships and scholarships						
Prize funds						
Chairs and lectureships						
Other						
	4,151	**5**	**424**	**19,049**	**(17,585)**	**6,043**

Represented by:	2009-10 Total £'000	Restricted Expendable £'000	Restricted Permanent £'000	2010-11 Total £'000
Endowment capital	4,551	**4,584**	**396**	**4,980**
Accumulated income / (deficit)	(30)	**77**	**9**	**86**
	4,521	**4,661**	**405**	**5,066**

Notes to the Financial Statements

For the year ended 31 July 2011

20 Revaluation Reserve

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
At 1 August	**722**	0	**722**	0
Revaluations in the year	**451**	722	**451**	722
At 31 July	**1,173**	722	**1,173**	722

21 Movement on general reserves

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
At 1 August	**45,213**	33,346	**58,958**	47,863
Surplus for the year	**1,861**	7,135	**255**	6,582
Increase in net assets from joint ventures	**188**	219	**0**	0
Actuarial (loss)/gain in respect of pension schemes	**(2,023)**	3,715	**(2,023)**	3,715
Capitalisation of heritage assets	**0**	798	**0**	798
At 31 July	**45,239**	45,213	**57,190**	58,958
Balance represented by:				
Pension reserve	**(17,347)**	(16,801)	**(17,347)**	(16,801)
Income and expenditure account excluding pension reserve	**62,586**	62,014	**74,537**	75,759
At 31 July	**45,239**	45,213	**57,190**	58,958

22 Capital commitments

	Consolidated		University	
	2010-11	2009-10	**2010-11**	2009-10
	£'000	£'000	**£'000**	£'000
Provision has not been made for the following capital commitments at 31 July 2011:				
Commitments contracted for:	**12,235**	14,101	**5,639**	14,101
Authorised but not contracted for:	**53,615**	10,222	**53,115**	10,222
	65,850	24,323	**58,754**	24,323

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

	Consolidated	
	2010-11	2009-10
	£'000	£'000
Surplus on continuing operations after depreciation of assets at cost	**815**	6,237
Depreciation, amortisation and impairment (notes 9, 10 and 12)	**6,798**	5,702
Loss on disposal of fixed assets	**469**	0
Deferred capital grants released to income (note 18)	**(2,659)**	(2,559)
Pension cost less contributions payable	**(1,477)**	(783)
Increase in current asset investments	**(58)**	8
(Increase) in stocks	**24**	(32)
Decrease/(increase) in debtors	**552**	(445)
Increase in creditors	**2,283**	8,168
(Increase)/decrease in provisions	**974**	(643)
Endowment and investment income	**(562)**	(336)
Interest Payable	**3,505**	1,832
Net cash inflow from operating activities	**10,664**	17,149

24 Analysis of changes in net debt

	Consolidated			
	At 1 August 2010 £'000	**Cash flows £'000**	**Other changes £'000**	**At 31 July 2011 £'000**
Cash at bank and in hand	15,931	**9,028**	**0**	**24,959**
Endowment asset investments	2,480	**(2,105)**	**0**	**375**
	18,411	**6,923**	**0**	**25,334**
Current asset investments (short term deposits)	5,000	**58**	**0**	**5,058**
	23,411	**6,981**	**0**	**30,392**
Debt due within one year	(950)	**950**	**(950)**	**(950)**
Debt due after one year	(67,629)	**(9,069)**	**950**	**(75,748)**
	(45,168)	**(1,138)**	**0**	**(46,306)**

Notes to the Financial Statements

For the year ended 31 July 2011

25 Pension Schemes

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

USS is a mutual scheme and the assets are not hypothecated to individual institutions and it is therefore not possible to identify its share of the underlying assets and liabilities.

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

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

	2010-11	2009-10
	£'000	£'000
Contribution to USS	**10,717**	9,832
Contribution to LGPS	**465**	474
LGPS additional University costs to fund past service deficiency	**1,525**	1,331
Contributions to UEPS	**778**	865
Uof EPS additional University costs to fund past service deficiency	**646**	546
Net adjustment from FRS 17 staff costs	**(1,877)**	(1,997)
Total pension cost	**12,254**	11,051

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

	2010-11	2009-10
	£'000	£'000
LGPS pension liability	**(16,016)**	(13,788)
UEPS pension liability	**(1,331)**	(3,013)
Total pension liability	**(17,347)**	(16,801)

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. USS has over 142,000 active members and the university has 1,287 active members participating in the scheme.

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

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with other institution's employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

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

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

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

Notes to the Financial Statements

For the year ended 31 July 2011

25 Universities Superannuation Scheme (continued)

Standard mortality tables were used as follows:

Male member's mortality	PA92 MC YoB tables rated down 1 year
Female member's mortality	PA92 MC YoB tables with no age rating

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

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

At the valuation date, the market value of the assets of the whole scheme was £28,842m and the value of the past service liabilities was £28,135m, indicating a surplus of £707m. The assets were therefore sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

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

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

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

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2011 the market's assessment of inflation has increased slightly. The government has also announced a change to the inflation measure used in determining the 'Official Pensions Index' from the Retail Price Index to the Consumer Prices Index. The actuary has taken this all into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increase from 3.3% to 2.9% pa. The actuary has estimated that the funding level as at 31 March 2011 under the scheme specific funding regime has fallen from 103% to 98% (a deficit of circa £700million). Over the past twelve months, the funding level has improved from 91% as at 31 March 2010 to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions). the next formal valuation is as at 31 March 2011 and this will incorporate updated assumptions agrees by the trustee company.

With effect from 1 October 2011, new joiners to the scheme will join the new revauled benefits section rather than the exisitng final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS17 basis, using an AA bond discount rate of 5.5% per annum based upon spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis was approximately 54%.

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

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

Notes to the Financial Statements

For the year ended 31 July 2011

25 Universities Superannuation Scheme (continued)

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

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

The next formal triennial actuarial valuation is as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently

The total pension cost for UECS Limited was £133k (2009-10: £21k). There are no prepaid or outstanding contributions at the balance sheet date. The contribution rate payable by the University was 14% of pensionable salaries, increasing to 16% from October 2009.

Local Government Pension Scheme (LGPS)

The Essex County Council LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2010-11 were 17.4% for the University until April 2011 when the rate was decreased to 16.1% and 7% for employees (5.5% for manual workers). In addition, the University made a further payment of £1.573m (2009-10: £1.331m) towards the scheme deficiency.

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

Last actuarial valuation	31st March 2010
Actuarial method	Projected Unit
Pension increases	2.7% per annum
Salary scale increases	4.2% per annum
Market value of assets at date of last valuation (whole fund)	£3,085 million

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

Actuarial Assumptions

A full actuarial valuation was carried out at 31 March 2010, and updated to 31 July 2011 by a qualified independent actuary. The major assumptions used by the actuary were:

Financial Assumptions	**At 31 July 2011 %**	At 31 July 2010 %
Rate of increase in salaries	**4.30**	4.20
Rate of increase in pension payments	**2.80**	2.70
Expected return on assets	**6.18**	6.78
Discount rate for liabilities	**5.10**	5.50
Inflation assumptions	**2.80**	2.70
Split of assets between investment categories		
Equities	**68.40**	59.40
Government Bonds	**7.00**	7.40
Other Bonds	**8.50**	5.60
Property	**11.30**	11.70
Cash	**4.80**	3.20
Other	**0.00**	12.70

Notes to the Financial Statements

For the year ended 31 July 2011

25 Local Government Pension Scheme (LGPS) - continued

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31 July 2011 %	**Whole fund value at 31 July 2011 £'000**	Long-term rate of return expected at 31 July 2010 %	Whole fund value at 31 July 2010 £'000	Long-term rate of return expected at 31 July 2009 %	Whole fund value at 31 July 2009 £'000
Equities	**7.00**	**2,343,000**	7.50	1,712,000	7.50	1,732,000
Government Bonds	**3.90**	**240,000**	4.20	213,000	4.50	141,000
Other Bonds	**4.90**	**291,000**	5.10	161,000	5.80	211,000
Property	**6.00**	**387,000**	6.50	337,000	6.50	184,000
Cash	**0.50**	**164,000**	0.50	92,000	0.50	158,000
Other	**0.00**	**0**	7.50	366,000	0.00	0
Total market value of assets		**3,425,000**		2,881,000		2,426,000
University of Essex estimated asset share		**32,461**		31,035		26,624
Present value of scheme liabilities		**(48,477)**		(44,823)		(44,245)
Deficit in the scheme		**(16,016)**		(13,788)		(17,621)
		67%		69%		60%

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

Mortality and life expectancy assumptions	**At 31 July 2011**	At 31 July 2010
Active members	**Males - 91% SiPMA CMI_2009_M [1%]** **Females - 85% S1PFA CMI_2009_F [1%]**	PA 92mc YOB Tables
Current Pensioners	**Males - 91% SiPMA CMI_2009_M [1%]** **Females - 85% S1PFA CMI_2009_F [1%]**	PA 92mc YOB Tables
Life expectancy:		
Male (Female) current pensioner aged 65	**24.0 (26.8) years**	23.1 (25.9) years
Male (Female) future pensioner aged 65	**22.6 (25.2) years**	22.1 (25.0) years

	At 31 July 2011 £'000	At 31 July 2010 £'000
Analysis of amount charged to income and expenditure account		
Current service charge	**(483)**	(587)
Total operating charge	**(483)**	(587)
Analysis of net return on pension scheme		
Expected return on pension scheme assets	**1,995**	1,678
Interest on pension liabilities	**(2,419)**	(2,742)
Net return	**(424)**	(1,064)
Amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	**(3,287)**	3,573
Actuarial (gain)/loss recognised in the STRGL	**(3,287)**	3,573
Movements in deficit during the year		
Deficit in scheme at 1 August	**(13,788)**	(17,621)
Movements in the year:		
Current service charge	**(483)**	(587)
Contributions	**1,966**	1,923
Past service cost and curtailment loss	**0**	0
Other outgoings	**0**	(12)
Net interest/return on assets	**(424)**	(1,064)
Actuarial (gain)/loss	**(3,287)**	3,573
Deficit in scheme at 31 July	**(16,016)**	(13,788)

Notes to the Financial Statements

For the year ended 31 July 2011

25 Local Government Pension Scheme (LGPS) - continued

	At 31 July 2011 £'000	At 31 July 2010 £'000
Change in benefit obligation during the period to 31 July		
At beginning of year	**44,823**	44,245
Current service cost	**483**	587
Interest on pension liabilities	**2,419**	2,742
Member contributions	**169**	199
Actuarial (gains)/losses on liabilities	**2,918**	(713)
Benefits paid	**(2,335)**	(2,237)
At end of year	**48,477**	44,823
Analysis of movement in the market value of the scheme assets		
At beginning of year	**31,035**	26,612
Expected return on plan assets	**1,995**	1,678
Actuarial gains/(losses) on assets	**(369)**	2,860
Employer contributions	**1,966**	1,923
Member contributions	**169**	199
Benefits/transfers paid	**(2,335)**	(2,237)
At end of year	**32,461**	31,035

History of Experience Gains and Losses	**2010-11 £000**	2009-10 £000	2008-09 £000	2007-08 £000	2006-07 £000
Difference between the expected and actual return on scheme assets:					
Amount	**(369)**	2,860	197	7,456	1,201
Percentage of scheme assets	**-1.1%**	9.2%	0.7%	26.2%	3.8%
Experience gains arising on the scheme liabilities:					
Amount	**(368)**	0	0	0	0
Percentage of scheme liabilities	**-0.8%**	0.0%	0.0%	0.0%	0.0%
Total amount recognised in the Statement of Total Recognised Gains and Losses					
Amount	**(3,287)**	3,573	197	7,456	1,201
Percentage of the present value of scheme liabilities	**6.8%**	1.7%	0.4%	2.8%	2.8%

In 2011-12, the University estimates that it will pay £2.021m in future service contributions and £1.573m in respect of the past service deficit.

University of Essex Pension Scheme (UEPS)

The UEPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The contribution rates for 2010-11 were 21.5% for the University (2009-10 21.5%) and 6% for employees. In addition, the University made a further payment of £46,000 (2009-10: £546,000) towards the scheme deficiency.

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

Last actuarial valuation date	31/07/2010
Actuarial method	Projected Unit
Price inflation	3.40% per annum
Pension increases	3.4% per annum
Salary scale increases	4.4% per annum
Market value of assets at 1 August 2010	£12.476m

Notes to the Financial Statements

For the year ended 31 July 2011

25 University of Essex Pension Scheme (UEPS) - continued

Actuarial Assumptions

The full actuarial valuation carried out at 31 July 2010 has been updated to 31 July 2011 by a qualified independent actuary. The major assumptions used by the actuary were:

	At 31 July 2011 %	At 31 July 2010 %
Financial Assumptions		
Rate of increase in salaries	**4.20**	4.40
Rate of increase in pension payments	**3.20**	3.40
Expected return on assets	**6.43**	6.54
Discount rate for liabilities	**5.30**	5.40
Inflation assumptions	**3.20**	3.40
Split of assets between investment categories		
Equities	**80.02**	77.05
Corporate bonds	**10.48**	10.30
Government bonds	**8.18**	8.35
Cash	**1.32**	4.30

Expected rate of return on assets in the scheme

	Long-term rate of return expected at 31 July 2011 %	**Whole fund value at 31 July 2011 £'000**	Long-term rate of return expected at 31 July 2010 %	Whole fund value at 31 July 2010 £'000	Long-term rate of return expected at 31 July 2009 %	Whole fund value at 31 July 2009 £'000
Equities	**7.0**	**12,088**	7.3	9,614	7.5	6,936
Corporate bonds	**4.0**	**1,583**	5.4	1,286	4.5	1,091
Government bonds	**4.9**	**1,235**	4.3	1,044	6.0	819
Cash	**0.5**	**262**	0.5	532	0.5	599
Total market value of assets		**15,168**		12,476		9,445
Present value of scheme liabilities		**(16,499)**		(15,489)		(13,123)
(Deficit) in the scheme		**(1,331)**		(3,013)		(3,678)
		92%		81%		72%

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

Mortality and life expectancy assumptions

FRS disclosures up to July 2006 used the standard PXA92 series tables as used in the formal actuarial valuation in 2004. The trustees agreed that the formal funding valuation as at 31 July 2007 should be based on the standard mortality table PXA92 based on each member's actual year of birth and allowing for future improvements in mortality in line with the medium cohort projections. The University agreed to adopt these tables to calculate the liabilities for the FRS 17 disclosure as at 31 July 2010

Life expectancy assumptions	**At 31 July 2011**	At 31 July 2010
Non-pensioners	**SIPXA(YOB) lc 1% u/p**	PXA92 (YOB) mc
Pensioners	**SIPXA(YOB) lc 1% u/p**	PXA92 (YOB) mc

	At 31 July 2011 £'000	At 31 July 2010 £'000
Analysis of amount charged to income and expenditure account		
Current service charge	**(885)**	(862)
Past service cost	**0**	0
Total operating charge	**(885)**	(862)
Analysis of net return on pension scheme		
Expected return on pension scheme assets	**879**	**655**
Interest on pension liabilities	**(855)**	**(805)**
Net return	**24**	**(150)**

Notes to the Financial Statements

For the year ended 31 July 2011

25 University of Essex Pension Scheme (continued)

	At 31 July 2011 £'000	At 31 July 2010 £'000
Amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on pension scheme assets	**777**	1,185
Actuarial gains and (losses) arising on the scheme liabilities	**487**	(1,031)
Actuarial gain recognised in the STRGL	**1,264**	154
Movements in deficit during the year		
Deficit in scheme at 1 August	**(3,013)**	(3,678)
Movements in the year:		
Current service charge	**(885)**	(862)
Contributions	**1,279**	1,523
Net interest/return on assets	**24**	(150)
Actuarial gain/(loss)	**1,264**	154
Deficit in scheme at 31 July	**(1,331)**	(3,013)
Change in benefit obligation during the period to 31 July		
At beginning of year	**15,489**	13,123
Current service cost	**885**	862
Interest on pension liabilities	**855**	805
Member contributions	**18**	23
Actuarial (gain)/loss on liabilities	**(487)**	1,031
Benefits paid	**(261)**	(355)
At end of year	**16,499**	15,489
Analysis of movement in the market value of the scheme assets		
At beginning of year	**12,476**	9,445
Expected return on plan assets	**879**	655
Actuarial gain/(loss) on assets	**777**	1,185
Employer contributions	**1,279**	1,523
Member contributions	**18**	23
Benefits and transfers paid	**(261)**	(355)
At end of year	**15,168**	12,476

History of Experience Gains and Losses	**2010-11 £'000**	2009-10 £'000	2008-09 £'000	2007-08 £'000	2006-07 £'000
Difference between the expected and actual return on scheme assets:					
Amount	**777**	1,186	(1,113)	(686)	151
Percentage of scheme assets	**4.7%**	9.5%	11.8%	-7.8%	1.8%
Experience gains arising on the scheme liabilities:					
Amount	**487**	(1,031)	835	(1,228)	353
Percentage of scheme liabilities	**3.0%**	-6.7%	6.4%	-9.9%	3.6%
Total amount recognised in the Statement of total recognised gains and losses					
Amount	**1,264**	154	(278)	(1,914)	747
Percentage of the present value of scheme liabilities	**7.7%**	1.0%	-2.1%	-15.4%	7.6%

In the 2011-12 year, the University estimates that it will pay £823k in future service contributions and £0 in respect of the past service deficit. From 1 April 2009, the University has operated a salary sacrifice arrangement for this scheme. This includes the contributions the University expects to make due to its salary sacrifice arrangement.

Notes to the Financial Statements

For the year ended 31 July 2011

26 Subsidiary Undertakings and Joint Ventures

The University has the following wholly owned subsidiary companies:

Company	Activity	At 31 July 2011 £1 Shares	At 31 July 2010 £1 Shares
Wivenhoe Technology Ltd	Acquisition, protection and licensing of intellectual property from the University	**2**	2
Wivenhoe House Hotel Ltd	Development and operation of a hotel school	**4,465,000**	850,000
University of Essex Commercial Services Ltd *(formerly known as WP Management Ltd)*	Management of commercial activities at the University	**999,002**	30,002
University of Essex Knowledge Gateway Holdings Ltd	Holding land on behalf of the University for development as a Research Park	**12,390,682**	12,190,682
University of Essex Knowledge Gateway Park Ltd	Development and marketing of a Research Park	**250,002**	50,002
University of Essex Environmental Facilities Ltd	Dormant throughout the year	**100,000**	100,000
East 15 Acting School Ltd	Dormant throughout the year	**2**	2
University of Essex (Elmstead Road) Ltd	Dormant throughout the year	**2**	2
Universal Accommodation Group Ltd	Development of student accommodation	**1**	1

Trading results of wholly owned subsidiaries:	2010-11 £'000	2009-10 £'000
Wivenhoe Technology Ltd	**92**	(6)
Wivenhoe House Hotel Ltd	**0**	0
Univerity of Essex Commercial Services Ltd	**578**	(333)
University of Essex Knowledge Gateway Holdings Ltd	**(192)**	(26)
Universal Accommodation Group Ltd*	**410**	238
University of Essex Knowledge Gateway Ltd	**(138)**	(72)
	750	(199)

* Trading results before tax

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

University Campus Suffolk Ltd is a company limited by guarantee with two members, the University of Essex and the University of East Anglia, to promote the establishment of a university campus in Suffolk. For the year ending 31 July 2010 it recorded a surplus of £2.313k after taxation (£1.621k in 2008-09). On 9 September 2008, UCS Ltd was gifted land with an estimated value of £9.3m by Ipswich Borough Council to aid the development of Phase II of the capital programme. In the event that any part of the site remains undeveloped after 31 March 2013, the Council has the option to repurchase it for £1.

During the year, UCS Ltd purchased goods and services to the value of £319k from the University (2009-10: £322k) of which £150k was outstanding at 31 July 2010 (2009-10: £150k). UCS Ltd provided services to the University to the value of £14k, with £1k (2009-10 £5k) outstanding at 31 July 2011.

University Campus Suffolk Ltd has been accounted for as a joint venture in accordance with FRS 9. The level of profit included within the consolidated financial statements was as follows:

Joint Venture	Year-end date	2010-11 £'000	2009-10 £'000
University Campus Suffolk Ltd	31 July	**1,162**	815
		1,162	815

Notes to the Financial Statements

For the year ended 31 July 2011

26 Subsidiary Undertakings and Joint Ventures (continued)

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

	2010-11 Total	2009-10 Total
	£'000	£'000
Fixed Assets	**35,213**	34,589
Current Assets	**5,649**	2,052
Total Assets	**40,863**	36,641
Current Liabilities	**(2,512)**	(2,957)
Liabilities - amounts falling due after more than one year	**(11,438)**	(7,611)
Total Liabilities	**(13,950)**	(10,568)

During 2010-11 the accounting treatment changed for the Carisbrooke Essex Partnership, it is no longer considered a joint venture.

27 Related Party Transactions

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

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

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

Due to the level and nature of transactions between the organisations, the University of Essex Students' Union is considered to be a related party. In the year to 31 July 2011 the University paid the Union a revenue grant of £797,242 (2009-10: £752,534), and provided accommodation free of rent. The Union's income and expenditure account shows the following:

Mr. Kishor Krishnamoorthi was a Council member during 2010-11 who also sat on Essex Students' Union Broad.

	2010-11	2009-10
	£'000	£'000
Income	**6,039**	1,467
Expenditure	**(6,047)**	(1,310)
Operating loss / surplus before and after transfers from/(to) reserves	**(8)**	157

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

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

28 Contingent Liabilities

On 14 July 2008, the University provided a guarantee to Barclays Bank PLC on behalf of University Campus Suffolk (UCS). The guarantee supports a loan of £12.5m by the bank to UCS in respect of building works, and liability is shared equally between the University and the University of East Anglia.

On 27 April 2010, UCS entered into an additional loan facility of £8m with Barclays Bank PLC. The loan has been guaranteed by the University and the University of East Anglia in equal proportion. The facility was fully drawn down as at 31 July 2011.

Notes to the Financial Statements

For the year ended 31 July 2011

29 Agency Arrangements

	University	
	2010-11	2009-10
	£'000	£'000
Hardship Funds		
Balance brought forward at 1 August	**33**	25
Funding council grants received	**270**	249
Interest earned		
	303	274
Disbursed to students	**279**	(242)
Balance carried forward at 31 July	**582**	32
NHS Bursaries		
Payments received from NHS organisations	**1,381**	1,085
Disbursed to students	**(1,381)**	(1,085)
Balance unspent at 31 July	**0**	0

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

	2010-11	2009-10
HEFCE Teaching Grant		
Payments received from HEFCE	**4,640**	6,339
Payments made to partner institutions	**(4,640)**	(6,339)
Balance unspent at 31 July	**0**	0
HEFCE Research Grant		
Payments received from HEFCE	**138**	189
Payments made to partner institutions	**(138)**	(189)
Balance unspent at 31 July	**0**	0
General Social Care Council		
Payments received from General Social Care Council	**131**	138
Payments made to partner institution	**(131)**	(138)
Balance unspent at 31 July	**0**	0

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

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

30 EBITDA

Earnings before interest, taxation, depreciation and armortisation – adjusted for one off staff restructuring costs and pension FRS17 adjustment (EBITDA) is a measure of cash operating surplus. The reconciliation from the surplus on continuing operations and EBITDA is:

	Consolidated	
	2010-11	2009-10
	£'000	£'000
Surplus on continuing operations after depreciation but before joint ventures:	**815**	6,237
add back depreciation and amortisation charge	**6,798**	5,702
less release of deferred capital grants (note 23)	**(2,659)**	(2,559)
add back interest payable (note 9)	**3,505**	1,832
less general interest income (note 5)	**(332)**	(263)
add back FRS 17 (Charges)	**(1,477)**	(783)
add back release of provision for part time pensions	**0**	20
add back exceptional non-recurrent items:		
Staff restructuring costs	**2,748**	642
EBITDA	**9,398**	10,828

Notes to the Financial Statements

For the year ended 31 July 2011

31 Joint Venture Deferred Capital Grants Reserve

	2010-11	2009-10
	£'000	£'000
At 1 August	**26,384**	23,142
Joint venture deferred capital grants received	**868**	4,446
Released to income and expenditure account	**(1,370)**	(1,204)
At 31 July	**25,882**	26,384

32 Post Balance Sheet Events

In October 2011, the University appointed Uliving as its preferred bidder to develop new student accommodation on the Colchester Campus, as well as to operate an existing block of accommodation.

Once completed, Uliving, a consortium of Derwent Housing Association and Bouygues Development, will operate a total of 1,400 bed spaces, of which 640 will be newly constructed for completion at the start of 2013-14. The transaction is subject to satisfactory completion of commercial negotiations.

Five-Year Summary of Financial Position (unaudited)

For the year ended 31 July

	2006-07 £'000	2007-08 £'000	2008-09 £'000 As restated	2009-10 £'000	**2010-11 £'000**
Income and Expenditure Account					
Income					
Funding council grants	33,741	33,622	34,867	35,775	**36,333**
Tuition fees and educational contracts	30,303	35,329	44,340	54,853	**56,864**
Research grants and contracts	14,268	15,744	18,184	21,103	**25,493**
Other income	22,107	35,278	39,844	44,290	**45,622**
Endowment and investment income	1,247	1,205	903	336	**562**
Total	101,666	121,178	138,138	156,357	**164,874**
Less share of joint venture income	(971)	(11,976)	(15,340)	(17,397)	**(18,628)**
Total income	100,695	109,202	122,798	138,960	**146,246**
Expenditure					
Staff costs	62,736	67,392	72,470	75,811	**79,693**
Other operating expenses	32,248	32,948	41,546	48,164	**55,147**
Depreciation	3,921	4,406	5,104	5,702	**6,686**
Interest paid	2,651	2,482	3,006	3,046	**3,905**
Total expenditure	101,556	107,228	122,126	132,723	**145,431**
Surplus after depreciation of assets at cost	(861)	1,974	672	6,237	**815**
Share of operating loss in joint venture	(11)	(353)	(498)	801	**1,162**
Profit on disposal of fixed assets	6,151	0	0	0	**0**
Surplus for the year	5,279	1,621	174	7,038	**1,977**
Balance Sheet as at 31 July					
Total fixed assets	138,976	166,680	175,834	214,549	**220,794**
Intangible Assets	0	0	1,362	1,226	**1,090**
Endowment assets	2,602	2,670	3,465	4,521	**5,066**
Current assets	21,307	18,079	24,988	30,673	**39,248**
Creditors: amounts falling due within one year	(17,118)	(18,049)	(21,249)	(29,417)	**(31,807)**
Total assets less current liabilities	145,767	169,380	184,400	221,552	**234,391**
Creditors: amounts falling due after more than one year	(38,592)	(36,562)	(44,682)	(67,629)	**(75,641)**
Provisions for liabilities	(1,217)	(439)	(1,048)	(405)	**(1,379)**
Pension liability	(12,383)	(21,577)	(21,299)	(16,801)	**(17,347)**
Net assets	93,575	110,802	117,371	136,717	**140,024**
Deferred capital grants	47,444	51,799	57,418	59,877	**62,664**
Endowments	2,602	2,670	3,465	4,521	**5,066**
Reserves	43,229	56,333	33,346	45,935	**46,412**
Total funds	93,275	110,802	94,229	110,333	**114,142**

Financial Statistics

	2006-07	2007-08	2008-09	2009-10	2010-11
Surplus as a percentage of turnover	5.2%	1.5%	0.1%	5.3%	**1.4%**
Margin on research grants and contracts (income less direct expenditure/income)	20.9%	22.0%	20.2%	17.9%	**16.6%**
Margin on residences, catering & conferences (income less direct expenditure/income)	13.8%	14.6%	15.2%	9.6%	**12.5%**
Current ratio (current assets/current liabilities)	1.2	1.0	1.2	1.0	**1.2**
Debt as percentage of total turnover	37.7%	31.8%	32.4%	43.3%	**46.5%**
Liquidity days (number of days of average expenditure excluding depreciation supported by cash balances)	54	39	56	60	**79**
Debtor days (number of days income excluding Funding Council grant represented by debtors due within one year)	32	33	37	33	**29**

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