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# FINANCIAL STATEMENTS UNIVERSITY OF LONDON CENTRAL INSTITUTES AND ACTIVITIES 2006-07





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COLLEGES, CENTRAL INSTITUTES AND ACTIVITIES  
OF THE UNIVERSITY OF LONDON

# FINANCIAL REPORT

31 JULY 2007

The financial statements presented to Council comprise the consolidated results of the University of London and its principal trading subsidiary, Senate House Services Limited and these cover both the central institutes and activities of the University.

Page 32 of the financial statements sets out the constituent entities which make up the central institutes and activities.

The responsibility of the Council for these financial statements is set out on page 6. The format of these financial statements follows the Statement of Recommended Practice: Accounting for Further and Higher Education.

## INCOME AND EXPENDITURE ACCOUNT

The University's income and expenditure account continues to reflect the substantial restructuring which it is undergoing in order for it to put in place a business model which secures its long-term sustainability.

Within exceptional items are some of the costs (£2.8M) arising from this restructuring process which reflect the redundancy and early retirement scheme which is on-going and in the current year, in particular, extended to the University of London Institute in Paris which is restructuring in collaboration with both Queen Mary University of London and Royal Holloway University of London.

During the current year the external system has made further planned withdrawals from the University's general reserves of £3.2M to support the development of new courses by Colleges thus continuing the practice adopted in the two previous years.

## FINANCIAL HIGHLIGHTS

|  | 2007<br>£M   | 2006<br>£M   |
|--|--------------|--------------|
| <b>Income and expenditure account</b>                        |              |              |
| Income   | 110.5        | 105.6        |
| Expenditure  | 122.4        | 114.8        |
| Operating deficit  | 11.9         | 9.2          |
| Surplus on disposal of property                              | (4.9)        | (6.9)        |
| <b>Net deficit after depreciation and disposal of assets</b> | <b>7.0</b>   | <b>2.3</b>   |
| <b>Balance sheet</b>   |              |              |
| Deferred capital grants                                      | 21.2         | 19.3         |
| Endowments   | 65.9         | 61.2         |
| Revaluation reserves   | 25.4         | 18.1         |
| General reserves   | 60.6         | 68.1         |
| <b>Net assets</b>  | <b>173.1</b> | <b>166.7</b> |

## CORPORATE REORGANISATION

The University has been engaged on a corporate reorganisation project over the last two years. This has secured tangible results which will give rise to benefits in the income and expenditure accounts in future years. The areas which this project has focused on include:

- The estates strategy, where a rationalisation of the University's estate so that the number of buildings it occupies is reduced from 18 to five with commensurate cost savings, has been initiated;
- Coupled with the above, a space management strategy which includes the adoption of a space charging regime aimed at reducing the area in occupation by the University to an optimum and affordable size has also been implemented. This aims, in the first instance, to release surplus space to the Colleges of the University thereby generating income either in the form of rental streams or by way of lease premia at levels set on open market bases;
- The voluntary redundancy scheme has been accompanied by a reduction and rationalisation in the number of divisions within the central University and, in particular, a contraction in the scale of its academic related functions to reflect the changes in the relationship between the central University and its Colleges;
- A cultural change programme has been initiated focusing on ensuring that the staff of the central University are equipped with the skills and flexibility to respond to and meet the changing requirements of its customers going forward;
- A new financial system, based on Agresso software, is being implemented to overhaul the whole financial planning and management process;
- Coupled with the above, an information technology strategy has been put in place to improve the effectiveness and functionality of the IT infrastructure and services; and
- Contractual arrangements for facilities management and catering services have been re-tendered on a portfolio basis and the previous multiplicity of arrangements and suppliers rationalised to just two main providers.

More work is planned to take the project forward in 2007-08, in particular, to increase revenue from external hiring of space and the planned development of the central University, with its unique buildings centred on a refurbished Senate House, as a major conference venue.

## CAPITAL PROJECTS

The project to refurbish Senate House progressed during the year with the completion, with significant savings against the original budgeted costs, of phase 1 and the enabling works for phases 2 and 3. Following receipt of Listed Building Consent in September 2007, the contract for phases 2 and 3 (which are to run concurrently) has been let to Tolent Construction Limited and commenced on 1 October 2007. The forecast completion date is 30 October 2009 although some areas will be available for re-occupation before this. The works will cover the south block of Senate House as well as the whole of the Senate House Library and tower.

The College Hall extension and refurbishment project was completed on 4 October 2007 at a cost of some £22.5M. The student rooms have been fully booked by students for the 2007-08 academic year despite a slight delay in their release and this reflects both their uniquely high quality, good value and excellent location at the heart of the University precinct.

## LIQUIDITY

The combination of the capital expenditure programmes and a negative cash outflow from operating activities placed a strain on the University's liquidity which is shown by its balance sheet as at 31 July 2007.

Since the year end this position has been substantially mitigated by way of capital receipts from further sales of properties (£5.1M) and the restructuring of its long term debt in the form of bank loans. As at 31 July 2007 the University's bank loans (as shown in note 14 to the financial statements) totalled £41M. These have been refinanced through the Royal Bank of Scotland by way of a £50M unsecured 40 year term loan bearing a fixed rate of interest of 5.095%. This represents a reduction of 22 basis points in the future cost of the University's borrowings as well as increasing available funds by £9M.

## KEY EVENTS

The Higher Education Funding Council for England (HEFCE) has completed a review of the School of Advanced Study and whilst the final outcome is still awaited it is expected to confirm the continuance of the School's special funding to promote its research facilitation role. The results of a parallel review by the HEFCE of the future funding of research libraries including the Senate House Library are also awaited.

The restructuring of the University of London Institute in Paris, as referred to above under exceptional items, has also been substantially completed during 2006-07. The additional student numbers awarded by the HEFCE, which have underpinned this restructuring, whereby the Institute now focuses on French Studies, have all been fully taken up.

Imperial College became independent and left the federal University with effect from 8 July 2007. Whilst this reflects the evolution which an institution such as the University of London inevitably undergoes it should be noted that only two years ago membership of the federation was expanded with the accession of The Central School of Speech and Drama and, with effect from 1 September 2006, Heythrop College, a constituent college of the federation since 1970, achieved the status of a higher education institution.

The work on the reform of the University's governance continues: the new Statutes have been given initial approval by the University Council and following completion of the formal consultation process, the final draft will be considered by the Council at its November 2007 meeting along with a draft of a number of the supporting Ordinances. It is hoped that the new governance arrangements will be in place for 1 August 2008.

## CONCLUSION

This has been an eventful year for the University which, together with its world renowned constituent Colleges and Institutes, continues to occupy a pre-eminent place both nationally and internationally within the exciting and dynamic higher education sector.

The central University remains in sound financial health notwithstanding the impact of its restructuring on its income and expenditure account over the past two years. The key to its future success will be for it to secure the sustainability of its financial position. I am confident that the changes we have put in place, and continue to implement, will achieve this outcome and that the University has the necessary resources, people, objectives and ambition to underpin its activities and achieve our vision in the coming years. Accordingly, these financial statements have been prepared on the going concern basis, reflecting its continuing business.

It remains for me to express my thanks to all the dedicated staff of the University for their sustained efforts and to record my appreciation of the support which I have enjoyed by members of Council, most especially the heads of its Colleges, and the members of the various committees of the University.

**Sir Graeme Davies**  
Vice-Chancellor  
University of London  
28 November 2007

# CORPORATE GOVERNANCE STATEMENT

The University of London is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998.

Its purpose is to help the reader of the financial statements understand how the principles have been applied.

Throughout the year ended 31 July 2007, the University has been in compliance with all the Code provisions set out in Section 1 of the Combined Code on Corporate Governance insofar as they relate to universities. The University also complies with the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales issued by the Committee of University Chairmen.

The University Council comprises ex officio members, including Heads of Colleges, lay persons appointed under the University Statutes and academic and student members elected in accordance with the Ordinances; the majority of members of the Council are non-executive. The roles of Chairman and Deputy Chairman of the Council are separated from the role of the University's chief executive, the Vice-Chancellor. The matters specially reserved to the Council for decision are set out in the Statutes of the University and under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The University Council is responsible for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from executive officers on the day-to-day operations of its business and its associated activities.

The Council normally meets three times a year. Its statutory committees are the Senate and the Estates Committee. Other committees of the Council are the Finance Committee, the Governance Committee, the Nominations Committee, the Human Resources Committee, the Remuneration Committee, the Audit Committee and the Investments Committee.

**The Senate** is responsible for the determination of academic policy.

**The Estates Committee**, on which lay members of Council are in the majority, has the obligation under the Statutes to exercise Council's powers to sell, buy, exchange, lease and accept leases of property, or borrow money on behalf of the University on security of property of the University.

In exercising Council's powers, the Estates Committee acts in consultation with the Council on policies for promoting the purposes of the University, encouraging cooperation between Colleges in academic matters, and making the most effective use of resources.

**The Finance Committee** inter alia reviews the University's annual revenue and capital budgets before the start of each academic year to provide assurance to the Council on their viability. It monitors performance in relation to these budgets and recommends to the Council the adoption of the audited financial statements.

**The Governance Committee** is responsible for recommending to Council changes to the Statutes and Ordinances and to the constitution, membership and terms of reference of Council committees.

**The Nominations Committee** considers nominations for lay vacancies on the Council.

**The Human Resources Committee** considers, approves and monitors matters of personnel policy.

**The Remuneration Committee** determines the remuneration of the Vice-Chancellor and other senior staff.

**The Audit Committee** meets at least three times a year to receive the reports of the External Auditors, to approve the plan of work, based on an internal assessment of risk, for the Internal Audit Providers and to review their subsequent reports together with recommendations for improvements to the University's systems of internal control and management's response and implementation plans. It also receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitors adherence to the regulatory requirements. The Committee reviews in detail the University's annual financial statements together with the accounting policies. Whilst senior officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. The External and Internal Auditors have access at all times to the Chairman of the Committee.

**The Investments Committee** is responsible for matters relating to the investments of the University, including recommending to the Finance Committee the appointment of investment managers.

# RESPONSIBILITIES OF THE UNIVERSITY COUNCIL

The Council of the University is responsible for the administration and management of the affairs of the University, including ensuring an effective system of internal control, and is required to present consolidated audited financial statements each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University's Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and the University, the Council, through its designated office holder (the Vice-Chancellor), 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 of the surplus or deficit and cash flows for the year.

In causing the consolidated financial statements to be prepared, the Council has ensured that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future. For this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council has from time to time prescribed;
- 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 to prevent and detect fraud; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

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

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

The Audit Committee, on behalf of the Council, has reviewed the effectiveness of the University's system of internal control. Any system of internal financial control can, however, provide only reasonable but not absolute assurance against material mis-statement or loss.

# STATEMENT OF INTERNAL CONTROL

As the Governing Body of the University, we have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the Council in the University of London 1994 Act and Statutes, and the Financial Memorandum with the HEFCE.

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

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

As the Governing Body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- We meet no less than three times a year to consider the plans and strategic direction of the University.
- We receive periodic reports from the Chairman of the Audit Committee concerning internal control, and we require regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.
- We have established a Risk Management Steering Group reporting to the Audit Committee, to oversee risk management.
- The Audit Committee receives regular reports from the internal audit service, which includes its independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.

- Facilitated workshops are held to identify and to keep up to date the record of risks facing the University.
- A programme of risk awareness training.
- A robust risk prioritisation methodology based on risk ranking and cost-benefit analysis has been established.
- An organisation-wide risk register is maintained.
- Reports are received from budget holders, department heads and project managers on internal control activities.

Our review of the effectiveness of the system of internal control is informed by the internal audit service provided by Grant Thornton (UK) LLP, which operates to standards defined in the HEFCE Audit Code of Practice.

This externally provided service was last reviewed for effectiveness on behalf of the HEFCE during 2005-06.

This review identified that, in all key areas, Grant Thornton (UK) LLP's audit provision was satisfactory with the highest rating available. The internal audit service submits regular reports which include the independent opinion on the adequacy and effectiveness of our system of internal control, with recommendations for improvement.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

# INDEPENDENT AUDITORS' REPORT

## TO THE COUNCIL OF THE UNIVERSITY OF LONDON

We have audited the financial statements of University of London for the year ended 31 July 2007 which comprise the consolidated income and expenditure account, the statement of consolidated total recognised gains and losses, the Group and University balance sheets, the consolidated cash flow statement and reconciliation of net cash flow to movement in net debt and the related notes 1 to 30.

These financial statements have been prepared in accordance with the statement of the University's principal accounting policies.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated July 2006. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

### RESPECTIVE RESPONSIBILITIES OF THE UNIVERSITY COUNCIL AND AUDITORS

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

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University of London have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We also report if, in our opinion, the Council's report is not consistent with the financial statements, if the group has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit. We read the other information contained in the Council's report, including the corporate governance statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### BASIS OF OPINION

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

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

## **OPINION**

In our opinion:

- (a) the financial statements give a true and fair view of the state of affairs of the University and the group as at 31 July 2007 and of the deficit of the group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- (b) in all material respects income from Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received; and
- (c) in all material respects income has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum, dated July 2006 with the Higher Education Funding Council for England.

## **Deloitte & Touche LLP**

Chartered Accountants and Registered Auditors  
London  
United Kingdom  
3 December 2007

## **NOTES**

An audit does not provide assurance on the maintenance and integrity of the website, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the Council but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

# STATEMENT OF THE UNIVERSITY'S PRINCIPAL ACCOUNTING POLICIES

## BASIS OF PREPARATION

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards. They conform to guidance published by the Higher Education Funding Council for England.

## BASIS OF ACCOUNTING

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments.

## BASIS OF CONSOLIDATION

The consolidated financial statements include the University and its principal subsidiary undertaking Senate House Services Limited. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS2, the activities of the University of London Union have not been consolidated because the University does not control those activities.

## RELATED PARTY TRANSACTIONS

The University is partly funded by subscriptions from the Colleges within the federation and by charges for specific services supplied by the University to Colleges. Heads of Colleges within the federation are ex officio members of the Council of the University. These are not related parties because of the autonomy of the Colleges, which are independent higher education institutions.

## TAXATION

The University is an exempt charity under Schedule 2 to the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax.

The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

## FOREIGN CURRENCIES

Transactions made in foreign currency are recorded at the rate of exchange ruling at the date of the transaction, except that transactions made by the University of London Institute in Paris in euros are recorded initially in the accounting record maintained in Paris and recorded in the financial statements at the year-end rate.

Monetary assets and liabilities denominated in foreign currency are translated into sterling at the year-end rate, and gains and losses arising on conversion are dealt with in the consolidated income and expenditure account.

## RECOGNITION OF INCOME AND EXPENDITURE

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. Unspent balances are carried forward.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Recurrent grants from the Funding Councils are recognised in the period in which they are receivable.

Non-recurrent grants from Funding Councils or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

## 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.

Liquid resources comprise assets held as a readily disposable store of value. They include sums on short-term deposits with recognised banks and building societies and government securities.

## LAND AND BUILDINGS

Land and buildings are stated at cost less amounts written off to reflect any permanent impairment in value. Depreciation is charged on the capital cost or valuation of the buildings. Freehold properties (excluding land value) are depreciated at 1 per cent per annum straight-line and leasehold properties are depreciated at the amount necessary to write off the value of the asset over the remaining period of the lease. Refurbishment of buildings is capitalised and written off over 20 years. Where land and buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are credited to a deferred capital grants account and are released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy. Assets in the course of construction are not depreciated. Developmental interest incurred directly as a consequence of major capital developments is capitalised as part of the capital costs of the related asset.

## HERITAGE ASSETS

The University has received gifts and bequests of works of art, library collections and other decorative items and has also purchased works of art with funds from specific benefactions and public grants. In accordance with FRS15, all acquisitions since 1 August 1998 have been capitalised at cost, or in the case of donated assets, at valuation on receipt. In line with the accounting policy for other tangible assets, the threshold for capitalising assets is £20,000. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material.

## OTHER TANGIBLE ASSETS

Equipment, other than motor vehicles, but including computers and software costing less than £20,000 per individual item or group of related items, is written off in the year of acquisition. All other equipment is capitalised and written off over its estimated useful economic life, namely:

|                           |                    |
|---------------------------|--------------------|
| Motor vehicles            | <b>3 years</b>     |
| Computing equipment       | <b>4-7 years</b>   |
| Other plant and machinery | <b>5-20 years</b>  |
| Boats and boat equipment  | <b>10-25 years</b> |

Assets of all categories did not commence depreciation until 1990. Prior to this date no assets were depreciated.

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grants account and released to income and expenditure account over the expected useful economic life of the related equipment.

## LEASED ASSETS

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Leasing agreements, which transfer to the University substantially all the benefits and risks of ownership of an asset, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements.

The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

## INVESTMENTS

Both fixed asset investments and endowment asset investments are stated at market value in the balance sheet.

## INVESTMENT PROPERTIES

In accordance with SSAP 19 Accounting for Investment properties, investment properties are revalued annually at a valuation determined by the University Council with the assistance of qualified external valuers.

Changes in the market value of investment properties are taken to the statement of total recognised gains and losses. No depreciation is provided in respect of investment properties.

## STOCKS

Stocks are valued at the lower of cost or net realisable value, after making due provision for obsolete and slow-moving items.

## PROVISIONS FOR LIABILITIES AND CHARGES

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

## PENSION SCHEMES

The University participates in the University Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). These are externally funded defined benefits schemes which are contracted out of the State Second Pension. The liabilities of both these schemes are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuation of the schemes, and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services.

The University contributes to the National Health Service Superannuation Scheme (NHS), an unfunded defined benefit scheme for the academic and non-academic staff at the London and Kent, Surrey and Sussex (KSS) Deaneries.

The University contributes to the French State Social Security System, an unfunded defined contribution scheme for the academic and non-academic staff at the University of London Institute in Paris.

The University complies with FRS17 Retirement Benefits. Its defined benefit schemes (USS, SAUL and NHS) are all multi-employer schemes and, accordingly, given that it is not possible to identify the University's underlying share of their assets and liabilities, are accounted for as if they were defined contribution schemes.

## LONDON HIGHER

London Higher is the representative 'umbrella' organisation for universities and higher education colleges in London. Whilst it has its own constitution and board it does not have separate legal status from the University, which enters into all contracts and transactions on its behalf. Accordingly, London Higher's activities have been reflected in the University's income and expenditure account with effect from 1 August 2007.

# CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT FOR THE YEAR ENDED 31 JULY 2007

| Note |  | 2007<br>£'000   | 2006<br>£'000  |
|------|--|-----------------|----------------|
|      | <b>Income</b>  |                 |                |
| 1    | Funding Council grants   | 11,234          | 11,690         |
| 2    | Academic fees  | 32,870          | 28,807         |
| 3    | Research grants and contracts  | 3,022           | 2,900          |
| 4    | Other operating income   | 60,181          | 58,756         |
| 5    | Endowment and investment income  | 3,193           | 3,463          |
|      |  | 110,500         | 105,616        |
|      | <b>Expenditure</b>   |                 |                |
| 6    | Staff costs  | (50,212)        | (50,119)       |
| 7    | Other operating expenses   | (64,200)        | (57,591)       |
| 8    | Exceptional items  | (2,771)         | (2,157)        |
| 9    | Interest payable   | (1,131)         | (1,200)        |
| 10   | Depreciation   | (4,086)         | (3,788)        |
|      |  | (122,400)       | (114,855)      |
|      | <b>Deficit on continuing operations after depreciation of assets at cost</b> | <b>(11,900)</b> | <b>(9,239)</b> |
|      | Surplus on disposal of assets  | 4,907           | 6,947          |
|      | <b>Deficit after depreciation of assets and disposal of assets</b>           | <b>(6,993)</b>  | <b>(2,292)</b> |
| 17   | Transfer to accumulated income within specific endowments                    | (519)           | (429)          |
|      | <b>Deficit for the year transferred to reserves</b>                          | <b>(7,512)</b>  | <b>(2,721)</b> |

The activities reported in the consolidated income and expenditure account represent continuing activities.

# STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2007

| Note   | 2007<br>£'000  | 2006<br>£'000 |
|--|----------------|---------------|
|  | (6,993)        | (2,292)       |
| 11   | 3,348          | 2,838         |
| 11   | 210            | 296           |
| 11   | 7,032          | 896           |
| 17   | 850            | 52            |
| <b>Total recognised gains relating to the year</b> | <b>4,447</b>   | <b>1,790</b>  |
| <b>Reconciliation</b>                              |                |               |
| Opening reserves and endowments                    | 147,421        |               |
| Total recognised gains for the year                | 4,447          |               |
| <b>Closing reserves and endowments</b>             | <b>151,868</b> |               |

# BALANCE SHEETS AS AT 31 JULY 2007

| Note | Consolidated  |                 | University     |                 |                |
|------|---|-----------------|----------------|-----------------|----------------|
|      | 2007<br>£'000   | 2006<br>£'000   | 2007<br>£'000  | 2006<br>£'000   |                |
|      | <b>Fixed assets</b>                                     |                 |                |                 |                |
| 10   | Tangible assets   | 130,064         | 105,502        | 128,575         | 103,914        |
| 11   | Investments   | 3,974           | 3,820          | 3,974           | 3,820          |
|      |   | <b>134,038</b>  | <b>109,322</b> | <b>132,549</b>  | <b>107,734</b> |
| 11   | Investment properties                                   | 35,455          | 28,096         | 35,455          | 28,096         |
| 11   | Endowment asset investments                             | 65,890          | 61,173         | 65,890          | 61,173         |
|      |   | <b>101,345</b>  | <b>89,269</b>  | <b>101,345</b>  | <b>89,269</b>  |
|      | <b>Current assets</b>                                   |                 |                |                 |                |
|      | Stocks  | 1,665           | 1,506          | 1,663           | 1,506          |
| 12   | Debtors   | 11,226          | 10,877         | 11,869          | 11,187         |
|      | Short term deposits                                     | -               | 3,062          | -               | 3,062          |
|      | Cash at bank and in hand                                | 656             | 5,748          | 653             | 5,745          |
|      |   | <b>13,547</b>   | <b>21,193</b>  | <b>14,185</b>   | <b>21,500</b>  |
| 13   | Creditors: amounts falling due within one year          | (35,133)        | (26,039)       | (34,471)        | (24,902)       |
|      | <b>Net current liabilities</b>                          | <b>(21,586)</b> | <b>(4,846)</b> | <b>(20,286)</b> | <b>(3,402)</b> |
|      | <b>Total assets less current liabilities</b>            | <b>213,797</b>  | <b>193,745</b> | <b>213,608</b>  | <b>193,601</b> |
| 14   | Creditors: amounts falling due after more than one year | (40,022)        | (26,323)       | (40,022)        | (26,323)       |
| 15   | Provisions for liabilities and charges                  | (633)           | (710)          | (633)           | (710)          |
|      |   | <b>173,142</b>  | <b>166,712</b> | <b>172,953</b>  | <b>166,568</b> |
|      | <b>Represented by</b>                                   |                 |                |                 |                |
| 16   | Deferred capital grants                                 | 21,274          | 19,291         | 21,274          | 19,291         |
| 17   | Specific endowments                                     | 65,812          | 61,173         | 65,812          | 61,173         |
| 17   | General endowments                                      | 78              | -              | 78              | -              |
| 18   | Revaluation reserves                                    | 25,394          | 18,152         | 25,394          | 18,152         |
| 19   | General reserves  | 60,584          | 68,096         | 60,395          | 67,952         |
|      |   | <b>173,142</b>  | <b>166,712</b> | <b>172,953</b>  | <b>166,568</b> |

Approved by Council on 28 November 2007 and signed on its behalf by:

**C J Perrin CBE**  
Chairman, Finance Committee

**R A Cryer**  
Director of Finance

**Sir Graeme Davies**  
Vice-Chancellor

The notes on pages 17 to 31 form part of these financial statements

# CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 JULY 2007

| Note |   | 2007<br>£'000  | 2006<br>£'000 |
|------|---|----------------|---------------|
| 22   | Net cash outflow from operating activities                | (10,386)       | (9,549)       |
| 23   | Returns on investments and servicing of finance           | 2,062          | 2,263         |
| 24   | Capital expenditure and financial investment              | (21,490)       | (4,673)       |
|      | Cash outflow before use of liquid resources and financing | (29,814)       | (11,959)      |
| 26   | Management of liquid resources                            | 10,165         | 8,616         |
| 25   | Net movement in financing                                 | 14,557         | 4,406         |
|      | <b>(Decrease)/increase in cash</b>                        | <b>(5,092)</b> | <b>1,063</b>  |

## Reconciliation of net cash flow to movement in net debt

| Note |  | 2007<br>£'000   | 2006<br>£'000   |
|------|--|-----------------|-----------------|
| 26   | (Decrease)/increase in cash for the period | (5,092)         | 1,063           |
| 26   | Decrease in liquid resources               | (10,165)        | (8,616)         |
| 26   | Increase in net loan finance               | (14,557)        | (4,406)         |
|      | Change in net debt                         | (29,814)        | (11,959)        |
|      | Net (debt)/funds at 1 August               | (11,671)        | 288             |
|      | <b>Net debt at 31 July</b>                 | <b>(41,485)</b> | <b>(11,671)</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007

## 1. GRANTS FROM THE HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND (HEFCE)

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Recurrent grants                             | 10,932        | 11,441        |
| Release of deferred capital grants (note 16) |               |               |
| Buildings                                    | 264           | 211           |
| Equipment                                    | 38            | 38            |
|  | <b>11,234</b> | <b>11,690</b> |

## 2. ACADEMIC FEES

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| External system student fees   | 30,339        | 26,298        |
| Full time credit bearing courses – home fees                                   | 693           | 544           |
| Full time credit bearing courses – international fees                          | 472           | 556           |
| Part time credit bearing courses   | 242           | 156           |
| Certificate and diploma courses at the University of London Institute in Paris | 1,124         | 1,253         |
|  | <b>32,870</b> | <b>28,807</b> |

## 3. RESEARCH GRANTS AND CONTRACTS

|                                | 2007<br>£'000 | 2006<br>£'000 |
|--------------------------------|---------------|---------------|
| Research councils              | 901           | 901           |
| UK based charities             | 658           | 488           |
| UK government bodies           | 707           | 708           |
| EU government and other bodies | 109           | 142           |
| Other                          | 647           | 661           |
|                                | <b>3,022</b>  | <b>2,900</b>  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 4. OTHER OPERATING INCOME

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Colleges: subscriptions and charges                  | 9,523         | 9,367         |
| Residences and catering                              | 16,275        | 15,731        |
| Estates revenue                                      | 1,176         | 1,950         |
| Other general income                                 | 10,652        | 11,073        |
| Services rendered by the Deaneries and London Higher | 21,128        | 19,325        |
| Examination services for Colleges                    | 1,226         | 1,193         |
| Deferred capital grants (note 16)                    | 201           | 117           |
|  | <b>60,181</b> | <b>58,756</b> |

## 5. ENDOWMENT AND INVESTMENT INCOME

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Transferred from specific endowments (note 17) | 2,707         | 2,560         |
| Other interest receivable                      | 486           | 903           |
|  | <b>3,193</b>  | <b>3,463</b>  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 6. STAFF COSTS

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Salaries and wages                                   | 41,362        | 41,424        |
| NI contributions                                     | 3,732         | 3,773         |
| Other pension costs                                  | 5,118         | 4,922         |
|  | <b>50,212</b> | <b>50,119</b> |
| The above is analysed as follows:                    |               |               |
| University   | 34,176        | 34,461        |
| Deaneries and London Higher                          | 16,036        | 15,658        |
|  | <b>50,212</b> | <b>50,119</b> |
| Emoluments of the Vice-Chancellor, Sir Graeme Davies |               |               |
| Salary   | 137           | 130           |
| Benefits in kind                                     | 12            | 12            |
|  | <b>149</b>    | <b>142</b>    |

|  | 2007<br>Number of staff | 2006<br>Number of staff |
|--|-------------------------|-------------------------|
| Average staff numbers by category expressed as full time equivalents |                         |                         |
| Academic   | 109                     | 109                     |
| Administrative   | 752                     | 804                     |
| Deaneries and London Higher  | 242                     | 265                     |
|  | <b>1,103</b>            | <b>1,178</b>            |

Remuneration of other higher paid staff in bands commencing at £70,000, excluding employer's superannuation contributions

|                     | University              |                         | Deaneries and London Higher |                         |
|---------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
|                     | 2007<br>Number of staff | 2006<br>Number of staff | 2007<br>Number of staff     | 2006<br>Number of staff |
| £70,000 – £79,999   | 2                       | 9                       | 5                           | 2                       |
| £80,000 – £89,999   | 8                       | 2                       | 2                           | 4                       |
| £90,000 – £99,999   | 1                       | 2                       | 2                           | 2                       |
| £100,000 – £109,999 | 2                       | -                       | 4                           | 2                       |
| £110,000 – £119,000 | -                       | 1                       | -                           | -                       |
| £120,000 – £129,000 | -                       | 1                       | 2                           | 2                       |
| £130,000 – £139,999 | -                       | -                       | 2                           | 3                       |
| £160,000 – £169,999 | -                       | -                       | 2                           | -                       |
| £180,000 – £189,999 | -                       | -                       | 1                           | -                       |
| £210,000 – £219,999 | -                       | -                       | -                           | 1                       |
| £220,000 – £229,000 | -                       | -                       | -                           | 1                       |

Included in the remuneration of other higher paid University staff are compensation payments:

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Compensation paid to former post holders | 24            | 120           |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 7. EXPENDITURE BY ACTIVITY

|  | Staff costs<br>£'000 | Other operating costs<br>£'000 | Depreciation<br>£'000 | Interest payable<br>£'000 | 2007<br>£'000  | 2006<br>£'000  |
|--|----------------------|--------------------------------|-----------------------|---------------------------|----------------|----------------|
| Academic departments                                 | 7,315                | 3,320                          | 260                   | 12                        | 10,907         | 10,152         |
| Academic services                                    | 8,326                | 6,278                          | 238                   | -                         | 14,842         | 15,422         |
| External system                                      | 5,732                | 25,723                         | -                     | -                         | 31,455         | 26,715         |
| Central services                                     | 4,698                | 1,397                          | -                     | -                         | 6,095          | 6,920          |
| General education expenses                           | 549                  | 3,881                          | -                     | -                         | 4,430          | 4,368          |
| Staff and students                                   | 2,526                | 1,486                          | -                     | -                         | 4,012          | 3,811          |
| Maintenance  | 1,669                | 2,284                          | 2,143                 | -                         | 6,096          | 6,291          |
| Residences and catering                              | 1,787                | 12,707                         | 1,445                 | 1,119                     | 17,058         | 16,575         |
| Research grants                                      | 1,695                | 1,052                          | -                     | -                         | 2,747          | 2,626          |
| Services rendered by the Deaneries and London Higher | 15,915               | 5,377                          | -                     | -                         | 21,292         | 19,325         |
| Other  | -                    | 695                            | -                     | -                         | 695            | 493            |
|  | <b>50,212</b>        | <b>64,200</b>                  | <b>4,086</b>          | <b>1,131</b>              | <b>119,629</b> | <b>112,698</b> |

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Included in other operating costs are:                |               |               |
| External system:                                      |               |               |
| Payments from prior year reserves to support Colleges | 3,225         | 4,007         |
| Central services:                                     |               |               |
| Auditors' remuneration                                |               |               |
| - external audit                                      | 61            | 58            |
| - internal audit                                      | 95            | 112           |
| - other services from external auditors               | 17            | 1             |
| Hire of plant and machinery - operating leases        | 7             | 7             |
| Hire of other assets - operating leases               | 385           | 565           |

## 8. EXCEPTIONAL ITEMS

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Agreed costs of redundancy and early retirement scheme | 2,771         | 2,157         |

## 9. INTEREST PAYABLE

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| On loans not wholly repayable within five years | 1,131         | 1,192         |
| On finance leases                               | -             | 8             |
|   | <b>1,131</b>  | <b>1,200</b>  |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 10. TANGIBLE FIXED ASSETS

### 10a. Consolidated

|                                    | Land and Buildings |                         |                          |                             |              | Equipment<br>£'000 | Total<br>£'000 |
|------------------------------------|--------------------|-------------------------|--------------------------|-----------------------------|--------------|--------------------|----------------|
|                                    | Freehold<br>£'000  | Long leasehold<br>£'000 | Short leasehold<br>£'000 | Under construction<br>£'000 |              |                    |                |
| <b>Cost</b>                        |                    |                         |                          |                             |              |                    |                |
| 1 August 2006                      | 100,255            | 617                     | 6,322                    | 11,778                      | 7,922        | 126,894            |                |
| Additions during the year          | 2,336              | -                       | -                        | 26,902                      | 210          | 29,448             |                |
| Transfer to investment properties  | (399)              | -                       | -                        | -                           | -            | (399)              |                |
| Completed during the year          | 424                | -                       | -                        | (424)                       | -            | -                  |                |
| Disposals during the year          | (858)              | -                       | -                        | -                           | -            | (858)              |                |
| <b>31 July 2007</b>                | <b>101,758</b>     | <b>617</b>              | <b>6,322</b>             | <b>38,256</b>               | <b>8,132</b> | <b>155,085</b>     |                |
| <b>Depreciation</b>                |                    |                         |                          |                             |              |                    |                |
| 1 August 2006                      | 14,045             | 133                     | 2,606                    | -                           | 4,608        | 21,392             |                |
| Charge for the year                | 3,438              | 15                      | 234                      | -                           | 399          | 4,086              |                |
| Transfer to investment properties  | (72)               | -                       | -                        | -                           | -            | (72)               |                |
| Disposals during the year          | (385)              | -                       | -                        | -                           | -            | (385)              |                |
| <b>31 July 2007</b>                | <b>17,026</b>      | <b>148</b>              | <b>2,840</b>             | <b>-</b>                    | <b>5,007</b> | <b>25,021</b>      |                |
| <b>Net book value 31 July 2007</b> | <b>84,732</b>      | <b>469</b>              | <b>3,482</b>             | <b>38,256</b>               | <b>3,125</b> | <b>130,064</b>     |                |
| Net book value 1 August 2006       | 86,210             | 484                     | 3,716                    | 11,778                      | 3,314        | 105,502            |                |

### 10b. University

|                                    | Land and Buildings |                         |                          |                             |              | Equipment<br>£'000 | Total<br>£'000 |
|------------------------------------|--------------------|-------------------------|--------------------------|-----------------------------|--------------|--------------------|----------------|
|                                    | Freehold<br>£'000  | Long leasehold<br>£'000 | Short leasehold<br>£'000 | Under construction<br>£'000 |              |                    |                |
| <b>Cost</b>                        |                    |                         |                          |                             |              |                    |                |
| 1 August 2006                      | 99,679             | 617                     | 6,322                    | 11,778                      | 3,531        | 121,927            |                |
| Additions during the year          | 2,336              | -                       | -                        | 26,902                      | -            | 29,238             |                |
| Transfer to investment properties  | (399)              | -                       | -                        | -                           | -            | (399)              |                |
| Completed during the year          | 424                | -                       | -                        | (424)                       | -            | -                  |                |
| Disposals during the year          | (858)              | -                       | -                        | -                           | -            | (858)              |                |
| <b>31 July 2007</b>                | <b>101,182</b>     | <b>617</b>              | <b>6,322</b>             | <b>38,256</b>               | <b>3,531</b> | <b>149,908</b>     |                |
| <b>Depreciation</b>                |                    |                         |                          |                             |              |                    |                |
| 1 August 2006                      | 13,679             | 132                     | 2,606                    | -                           | 1,596        | 18,013             |                |
| Charge for the year                | 3,396              | 15                      | 234                      | -                           | 132          | 3,777              |                |
| Transfer to investment properties  | (72)               | -                       | -                        | -                           | -            | (72)               |                |
| Disposals during the year          | (385)              | -                       | -                        | -                           | -            | (385)              |                |
| <b>31 July 2007</b>                | <b>16,618</b>      | <b>147</b>              | <b>2,840</b>             | <b>-</b>                    | <b>1,728</b> | <b>21,333</b>      |                |
| <b>Net book value 31 July 2007</b> | <b>84,564</b>      | <b>470</b>              | <b>3,482</b>             | <b>38,256</b>               | <b>1,803</b> | <b>128,575</b>     |                |
| Net book value 1 August 2006       | 86,000             | 485                     | 3,716                    | 11,778                      | 1,935        | 103,914            |                |

Included in land and buildings are certain exchequer funded assets. Should these assets be sold, the University may be required, under the terms of the financial memorandum with the HEFCE, to surrender the proceeds.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 11. CONSOLIDATED AND UNIVERSITY INVESTMENTS

### 11a. At market value

|   | Endowment<br>investments<br>£'000 | Other<br>investments<br>£'000 | 2007<br>Total<br>£'000 | Endowment<br>investments<br>£'000 | Other<br>investments<br>£'000 | 2006<br>Total<br>£'000 |
|---|-----------------------------------|-------------------------------|------------------------|-----------------------------------|-------------------------------|------------------------|
| 1 August                                  | 54,070                            | 3,820                         | 57,890                 | 51,211                            | 10,020                        | 61,231                 |
| Additions at cost                         | 172                               | 45                            | 217                    | 349                               | -                             | 349                    |
| Disposal proceeds                         | -                                 | (103)                         | (103)                  | (328)                             | (6,361)                       | (6,689)                |
| Profit on disposals                       |                                   |                               |                        |                                   |                               |                        |
| Current year                              | -                                 | -                             | -                      |                                   | (20)                          | (20)                   |
| Previously recognised                     | -                                 | 2                             | 2                      | 28                                | (115)                         | (87)                   |
| Appreciation on revaluation               | 3,348                             | 210                           | 3,558                  | 2,810                             | 296                           | 3,106                  |
|   | <b>57,590</b>                     | <b>3,974</b>                  | <b>61,564</b>          | <b>54,070</b>                     | <b>3,820</b>                  | <b>57,890</b>          |
| Short term deposits and cash              | -                                 | -                             | -                      | 7,103                             | -                             | 7,103                  |
| Due to endowments                         | 8,300                             | -                             | 8,300                  | -                                 | -                             | -                      |
| <b>31 July</b>                            | <b>65,890</b>                     | <b>3,974</b>                  | <b>69,864</b>          | <b>61,173</b>                     | <b>3,820</b>                  | <b>64,993</b>          |
| Investments held are analysed as follows: |                                   |                               |                        |                                   |                               |                        |
| Unified Trust Fund holdings               | 57,590                            | 3,711                         | 61,301                 | 54,070                            | 3,553                         | 57,623                 |
| Fixed interest                            | -                                 | 44                            | 44                     | -                                 | 44                            | 44                     |
| Equities/corporate bonds                  | -                                 | 172                           | 172                    | -                                 | 221                           | 221                    |
| Cash instruments                          | -                                 | 47                            | 47                     | -                                 | 2                             | 2                      |
|   | <b>57,590</b>                     | <b>3,974</b>                  | <b>61,564</b>          | <b>54,070</b>                     | <b>3,820</b>                  | <b>57,890</b>          |
| <b>11b. At cost</b>                       |                                   |                               |                        |                                   |                               |                        |
| Unified Trust Fund holdings               | 24,838                            | 1,943                         | 26,781                 | 24,337                            | 2,003                         | 26,340                 |
| Fixed interest                            | -                                 | 43                            | 43                     | -                                 | 43                            | 43                     |
| Equities/corporate bonds                  | -                                 | 166                           | 166                    | -                                 | 207                           | 207                    |
| Cash instruments                          | -                                 | 47                            | 47                     | -                                 | 2                             | 2                      |
|   | <b>24,838</b>                     | <b>2,199</b>                  | <b>27,037</b>          | <b>24,337</b>                     | <b>2,255</b>                  | <b>26,592</b>          |

### 11c. Investment in subsidiary companies at cost

The University of London owns 100% of the issued share capital of 1 £1 Ordinary Share of Senate House Services Limited, a company registered in England and Wales. The principal activity of the company is the provision of operational services to the University of London and its Colleges.

The £2 issued share capital of UMBS Enterprises Limited, a company registered in Scotland, is held in trust for the University of London. UMBS Enterprises Limited has not traded.

Setoncrest Limited and Law646 Limited, which both have issued share capital of £2 and are owned 100% by the University of London, have not traded in the year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 11. CONSOLIDATED AND UNIVERSITY INVESTMENTS – CONTINUED

|                                     | 2007<br>£'000 | 2006<br>£'000 |
|-------------------------------------|---------------|---------------|
| 1 August                            | 28,096        | 27,200        |
| Transfer from tangible fixed assets | 327           | -             |
| Revaluation                         | 7,032         | 896           |
| <b>31 July</b>                      | <b>35,455</b> | <b>28,096</b> |

Investment properties were revalued during the financial year in accordance with the University's accounting policy by chartered surveyors in the University's estates division with the assistance of external valuers. The valuation method adopted has been to capitalise both actual and future expected rental income applying the yield basis to provide an indicated investment value of the University's interests in the land and buildings after allowing for the costs of disposals.

## 12. DEBTORS

|                                   | Consolidated  |               | University    |               |
|-----------------------------------|---------------|---------------|---------------|---------------|
|                                   | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| Trade debtors                     | 8,786         | 8,133         | 8,471         | 7,249         |
| Other debtors                     | 1,863         | 2,160         | 1,863         | 2,152         |
| Prepayments and accrued income    | 577           | 584           | 417           | 390           |
| Amounts owed by group undertaking | -             | -             | 1,118         | 1,396         |
|                                   | <b>11,226</b> | <b>10,877</b> | <b>11,869</b> | <b>11,187</b> |

## 13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

|  | Consolidated  |               | University    |               |
|--|---------------|---------------|---------------|---------------|
|  | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| Current portion of bank loans                              | 2,106         | 1,230         | 2,106         | 1,230         |
| Current portion of finance lease and other long term loans | 157           | 175           | 157           | 175           |
| Due to endowments  | 8,300         | -             | 8,300         | -             |
| Trade creditors  | 18,856        | 18,254        | 18,629        | 17,938        |
| Grants received in advance                                 | 1,452         | 1,359         | 1,452         | 1,359         |
| Other taxation and social security                         | 1,844         | 1,901         | 1,731         | 1,562         |
| Accruals and deferred income                               | 2,418         | 3,120         | 2,096         | 2,638         |
|  | <b>35,133</b> | <b>26,039</b> | <b>34,471</b> | <b>24,902</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

|                                    | 2007<br>£'000 | 2006<br>£'000 |
|------------------------------------|---------------|---------------|
| <b>Consolidated and University</b> |               |               |
| Bank loans                         | 38,916        | 25,088        |
| Finance lease                      | 697           | 821           |
| Other loans                        | 265           | 270           |
| Other creditors                    | 144           | 144           |
|                                    | <b>40,022</b> | <b>26,323</b> |

## BORROWINGS

|                                       | Bank loans    |               | Finance leases |               |
|---------------------------------------|---------------|---------------|----------------|---------------|
|                                       | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000  | 2006<br>£'000 |
| <b>Consolidated and University</b>    |               |               |                |               |
| Obligations are repayable as follows: |               |               |                |               |
| Between one and two years             | 2,102         | 1,468         | 168            | 129           |
| Between two and five years            | 6,177         | 4,391         | 524            | 564           |
| Over five years                       | 30,637        | 19,229        | 5              | 128           |
| Total over one year                   | 38,916        | 25,088        | 697            | 821           |
| Within one year (note 13)             | 2,106         | 1,230         | 157            | 175           |
| Total due                             | 41,022        | 26,318        | 854            | 996           |

## BANK LOANS

| Lender  | Date loan obtained | Final repayment date | Interest rate                  | Balance outstanding | Balance outstanding |
|---------|--------------------|----------------------|--------------------------------|---------------------|---------------------|
|         |                    |                      |                                | 2007<br>£'000       | 2006<br>£'000       |
| Natwest | 1992               | 2017                 | variable: 0.5% above base rate | 1,493               | 1,817               |
| Natwest | 1997               | 2007                 | variable: 0.5% above base rate | 4                   | 20                  |
| RBS     | 2003               | 2028                 | fixed: 5.48%                   | 18,225              | 19,120              |
| RBS     | 2005               | 2031                 | fixed: 5.1%                    | 21,300              | 5,361               |
|         |                    |                      |                                | <b>41,022</b>       | <b>26,318</b>       |

The above loans are secured against certain halls of residence. The RBS loan obtained in 2005 is for a principal amount of £22,000,000 and was fully drawn down in August 2007.

### Finance lease

In February 1991 the University, for a consideration of £900,000, created a leasehold interest in respect of the former Courtauld Gallery in Woburn Square for a term of 60 years in favour of University College London (UCL). Part of the lease premium (£750,000) was funded by way of a finance lease for a 21 year period which the University arranged on behalf of UCL. Under this arrangement UCL meets the financing costs incurred by the University over the period of the lease. At 31 July 2007 the amount outstanding under this arrangement was £854,000 of which £157,000 is included in Creditors: amounts falling due within one year. There is an equivalent balance of £854,000, being the amount due from UCL, included in Debtors.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 15. PROVISIONS FOR LIABILITIES AND CHARGES

| <b>Consolidated and University</b>                | <b>2007<br/>£'000</b> | <b>2006<br/>£'000</b> |
|---|-----------------------|-----------------------|
| Restructuring provision                           |                       |                       |
| 1 August  | 710                   | -                     |
| Transfer (to)/from income and expenditure account | (77)                  | 710                   |
| <b>31 July</b>                                    | <b>633</b>            | <b>710</b>            |

The restructuring provision represents that part of the specific costs of the University's redundancy and early retirement scheme, and restructuring costs in respect of the University of London Union which are expected to be incurred in 2007-08.

The provision as at 1 August 2006, which was likewise in respect of the redundancy and early retirement scheme, was fully expended in 2006-07.

## 16. DEFERRED CAPITAL GRANTS

| <b>Consolidated and University</b>         | <b>Government agencies and HEFCE<br/>£'000</b> | <b>Other grants and benefactions<br/>£'000</b> | <b>Total<br/>£'000</b> |
|--|--|--|------------------------|
| Land and buildings                         | 14,020   | 4,927  | 18,947                 |
| Equipment                                  | 327  | 17   | 344                    |
| 1 August 2006                              | 14,347   | 4,944  | 19,291                 |
| Land and buildings                         | 636  | 1,850  | 2,486                  |
| Equipment                                  | -  | -  | -                      |
| Additions                                  | 636  | 1,850  | 2,486                  |
| Land and buildings                         | (264)  | (198)  | (462)                  |
| Equipment                                  | (38)   | (3)  | (41)                   |
| Released to income and expenditure account | (302)  | (201)  | (503)                  |
| Land and buildings                         | 14,392   | 6,579  | 20,971                 |
| Equipment                                  | 289  | 14   | 303                    |
| <b>31 July 2007</b>                        | <b>14,681</b>                                  | <b>6,593</b>                                   | <b>21,274</b>          |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 17. ENDOWMENTS

| Consolidated and University                 | Specific<br>£'000 | General<br>£'000 | Total<br>£'000 |
|---|-------------------|------------------|----------------|
| 1 August 2006                               | 61,173            | -                | 61,173         |
| Additions                                   | 772               | 78               | 850            |
| Appreciation of endowment asset investments | 3,348             | -                | 3,348          |
| Income                                      | 2,707             | -                | 2,707          |
| Expenditure                                 | (2,188)           | -                | (2,188)        |
| <b>31 July 2007</b>                         | <b>65,812</b>     | <b>78</b>        | <b>65,890</b>  |
| Represented by:                             |                   |                  |                |
| Fellowship and scholarship funds            |                   |                  | 13,082         |
| Prizes funds                                |                   |                  | 1,146          |
| Chairs and lectureship funds                |                   |                  | 23,004         |
| Other funds                                 |                   |                  | 28,658         |
|   |                   |                  | <b>65,890</b>  |

## 18. REVALUATION RESERVES

| Consolidated and University           | 2007<br>£'000 | 2006<br>£'000 |
|---------------------------------------|---------------|---------------|
| 1 August                              | 18,152        | 16,960        |
| Appreciation of long term investments | 210           | 296           |
| Revaluation of investment properties  | 7,032         | 896           |
| <b>31 July</b>                        | <b>25,394</b> | <b>18,152</b> |

## 19. GENERAL RESERVES

|  | Consolidated  |               | University    |               |
|--|---------------|---------------|---------------|---------------|
|  | 2007<br>£'000 | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| 1 August                                   | 68,096        | 70,817        | 67,952        | 70,741        |
| Transfer to income and expenditure account | (7,512)       | (2,721)       | (7,557)       | (2,789)       |
| <b>31 July</b>                             | <b>60,584</b> | <b>68,096</b> | <b>60,395</b> | <b>67,952</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 20. ACCESS FUNDS

|                         | 2007<br>£'000 | 2006<br>£'000 |
|-------------------------|---------------|---------------|
| 1 August                | -             | -             |
| Net received from HEFCE | 6             | 6             |
| Disbursed to students   | (6)           | (6)           |
| <b>31 July</b>          | <b>-</b>      | <b>-</b>      |

These Funding Council grants are solely for students. The University acts as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

## 21. OPERATING LEASE COMMITMENTS

|                            | Land and buildings |               | Equipment     |               |
|----------------------------|--------------------|---------------|---------------|---------------|
|                            | 2007<br>£'000      | 2006<br>£'000 | 2007<br>£'000 | 2006<br>£'000 |
| Expiry date:               |                    |               |               |               |
| Less than one year         | 10                 | 95            | 1             | 6             |
| Between one and five years | 231                | 343           | 5             | 1             |
| More than five years       | 144                | 127           | 1             | -             |

## 22. RECONCILIATION OF CONSOLIDATED DEFICIT FOR THE YEAR TO NET CASH OUTFLOW FROM OPERATING ACTIVITIES

|  | 2007<br>£'000   | 2006<br>£'000  |
|--|-----------------|----------------|
| Deficit on continuing operations after depreciation and disposal of assets | (6,993)         | (2,292)        |
| Depreciation   | 4,086           | 3,788          |
| Profit on disposal of tangible assets                                      | (4,907)         | (6,947)        |
| Deferred capital grants released   | (503)           | (366)          |
| Investment income credited to income and expenditure account               | (3,193)         | (3,463)        |
| (Gain)/loss on sale of investments   | (2)             | 135            |
| Interest payable   | 1,131           | 1,200          |
| (Increase)/decrease in stocks  | (159)           | 14             |
| Increase in debtors  | (349)           | (2,118)        |
| Increase/(decrease) in creditors   | 580             | (210)          |
| (Decrease)/increase in provisions  | (77)            | 710            |
| <b>Net cash outflow from operating activities</b>                          | <b>(10,386)</b> | <b>(9,549)</b> |

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 23. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

|   | 2007<br>£'000 | 2006<br>£'000 |
|---|---------------|---------------|
| Income from endowments  | 2,707         | 2,560         |
| Income from short term investments  | 486           | 903           |
| Interest payable  | (1,131)       | (1,200)       |
| <b>Net cash inflow from returns on investments and servicing of finance</b> | <b>2,062</b>  | <b>2,263</b>  |

## 24. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

|                                   | 2007<br>£'000   | 2006<br>£'000  |
|-----------------------------------|-----------------|----------------|
| Tangible assets acquired          | (30,092)        | (19,604)       |
| Investments acquired              | (45)            | -              |
| Endowment assets acquired         | (172)           | (349)          |
| Receipts from sale of assets      | 5,380           | 7,508          |
| Receipts from sale of investments | 103             | 6,689          |
| Deferred capital grants received  | 2,486           | 1,031          |
| Endowments received               | 850             | 52             |
|                                   | <b>(21,490)</b> | <b>(4,673)</b> |

## 25. FINANCING

|                      | 2007<br>£'000 | 2006<br>£'000 |
|----------------------|---------------|---------------|
| 1 August             | 27,584        | 23,178        |
| Additional borrowing | 15,934        | 5,754         |
| Capital repayments   | (1,377)       | (1,348)       |
| <b>31 July</b>       | <b>42,141</b> | <b>27,584</b> |

## 26. ANALYSIS OF CHANGES IN NET DEBT

|  | 1 August 2006<br>£'000 | Cashflows<br>£'000 | Transfers<br>£'000 | 31 July 2007<br>£'000 |
|--|------------------------|--------------------|--------------------|-----------------------|
| Cash at bank and in hand               | 5,748                  | (5,092)            | -                  | 656                   |
| Short term deposits                    | 3,062                  | (3,062)            | -                  | -                     |
| Endowment assets – short term deposits | 7,103                  | (7,103)            | -                  | -                     |
|  | 15,913                 | (15,257)           | -                  | 656                   |
| Debt due within one year               | (1,405)                | 1,377              | (2,235)            | (2,263)               |
| Debt due after one year                | (26,179)               | (15,934)           | 2,235              | (39,878)              |
|  | (11,671)               | (29,814)           | -                  | (41,485)              |

Management of liquid resources comprises short term deposits and endowment assets – short term deposits.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 27. CASH FLOW RELATING TO EXCEPTIONAL ITEMS

|                                       | 2007<br>£'000 | 2006<br>£'000 |
|---------------------------------------|---------------|---------------|
| Provision as at 1 August              | 710           | -             |
| Income and expenditure account charge | 2,771         | 2,157         |
| Operating cash flow                   | (2,848)       | (1,447)       |
| <b>Provision as at 31 July</b>        | <b>633</b>    | <b>710</b>    |

## 28. PENSION OBLIGATIONS

### USS

The University participates in the Universities Superannuation Scheme (USS), which is a funded defined benefit scheme where contributions are held in trust separately from the University. The main results and assumptions of the latest actuarial valuation as at 31 March 2005 of the USS are set out below. The proportion of benefits covered on the FRS17 basis is indicative.

|   | Past service | Future service |
|---|--------------|----------------|
| Investment returns on liabilities per annum   | 5.4%         | 6.2%           |
| Salary scale increases per annum  | 4.1%         | 3.9%           |
| Pension increases per annum   | 3.1%         | 2.9%           |
| Value of assets at date of last valuation   |              | £21,740M       |
| Proportion of members' accrued benefits covered by the actuarial value of the scheme's assets at 31 March 2005      |              | 77%            |
| Proportion of members' accrued benefits covered by the value of the scheme's assets on FRS17 basis at 31 March 2005 |              | 90%            |
| Proportion of members' accrued benefits covered by the value of the scheme's assets on FRS17 basis at 31 March 2007 |              | 109%           |

The contributions payable by the University during the accounting period were equal to 14% of total pensionable salaries (excluding member contributions of 6.35%). The USS is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The University therefore accounts for its pension costs in respect of the scheme on a defined contribution basis, as permitted by FRS 17 *Retirement Benefits*, thereby charging in its financial statements the contributions payable to the scheme for the year.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 28. PENSION OBLIGATIONS continued

### SAUL

The University participates in the Superannuation Arrangements of the University of London (SAUL), which is a centralised defined benefit scheme for all qualifying employees with the assets held in separate trust-administered funds. SAUL is a multi-employer scheme where the shares of assets and liabilities applicable to each employer is not identified. The University therefore accounts for its pension costs in respect of the scheme on a defined contribution basis, as permitted by FRS17 *Retirement Benefits*, thereby charging in its financial statements the contributions payable to the scheme for the year.

The last available actuarial valuation of the scheme was as at 31 March 2005 and used the projected unit credit method. The assumptions which have the most significant effect on the result of the valuation and the valuation results are set out below. The proportion of benefits covered on the FRS17 basis is indicative.

|   | Past service | Future service |
|---|--------------|----------------|
| Investment returns on liabilities per annum before retirement   | 5.5%         | 6.5%           |
| Investment returns on liabilities per annum after retirement  | 5.5%         | 6.5%           |
| Salary scale increases per annum  | 4.15%        | 4.15%          |
| Pension increases per annum   | 2.65%        | 2.65%          |
| Value of assets at date of last valuation   |              | £982M          |
| Proportion of members' accrued benefits covered by the actuarial value of the scheme's assets on at 31 March 2005   |              | 93%            |
| Proportion of members' accrued benefits covered by the value of the scheme's assets on FRS17 basis at 31 March 2005 |              | 100%           |
| Proportion of members' accrued benefits covered by the value of the scheme's assets on FRS17 basis at 31 March 2007 |              | 93%            |

The contribution rate at the date of the valuation was 15.5% of salaries, including member contributions of 5%. Following the actuarial valuation which took place as at 31 March 2005 the contribution rate was increased to 19% from 1 August 2006, including member contributions of 6%.

### NHS

The NHS Pension Scheme (NHS) is an unfunded defined benefit scheme that covers NHS employers, General Practices and other bodies, allowed under the direction of the Secretary of State in England and Wales. As a consequence it is not possible for the University to identify its share of the underlying scheme assets and liabilities. The University therefore accounts for its pension costs in respect of the scheme on a defined contribution basis, as permitted by FRS 17 *Retirement Benefits*, thereby charging in its financial statements the contributions payable to the scheme for the year. The NHS Pension Scheme is funded centrally by the Treasury on a current cost basis.

# NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2007 – continued

## 28. PENSION OBLIGATIONS continued

### Other pension arrangements

Members of staff, employed by the University of London Institute in Paris, are contracted into the French State Social Security System for the purposes of accumulating pension benefit. The scheme is unfunded and is equivalent to a defined contribution scheme in the United Kingdom. Accordingly, the University accounts for its pension costs in respect of this scheme, as permitted by FRS17 *Retirement Benefits*, by charging in its financial statements the contributions payable for the year.

### Contributions

|                          | USS    | SAUL   | NHS    |
|--------------------------|--------|--------|--------|
| Employees' contributions | 6.35%  | 6.00%  | 6.00%  |
| Employer's contributions | 14.00% | 13.00% | 14.00% |

|  | 2007<br>£'000 | 2006<br>£'000 |
|--|---------------|---------------|
| Contribution to USS                              | 2,669         | 2,652         |
| Contribution to SAUL                             | 1,379         | 1,129         |
| Contribution to NHS                              | 778           | 857           |
| Contribution to other pension arrangements       | 292           | 284           |
| <b>Charged to income and expenditure account</b> | <b>5,118</b>  | <b>4,922</b>  |

## 29. CAPITAL COMMITMENTS

| Consolidated and University              | 2007<br>£M  | 2006<br>£M  |
|--|-------------|-------------|
| Contracted at 31 July                    | 1.4         | 21.1        |
| Authorised but not contracted at 31 July | 51.0        | 45.1        |
|  | <b>52.4</b> | <b>66.2</b> |

## 30. RELATED PARTY TRANSACTIONS

A register of interests is maintained for members of the University Council and senior management and no related third party transactions of a material nature were reported during the year.

# COLLEGES, CENTRAL INSTITUTES AND ACTIVITIES OF THE UNIVERSITY OF LONDON

## THE COLLEGES

Birkbeck, University of London  
The Central School of Speech and Drama  
Courtauld Institute of Art  
Goldsmiths, University of London  
Heythrop College  
The Institute of Cancer Research  
Institute of Education, University of London  
King's College London  
London Business School  
The London School of Economics and Political Science  
The London School of Hygiene and Tropical Medicine  
Queen Mary, University of London  
Royal Academy of Music  
Royal Holloway, University of London  
The Royal Veterinary College  
St George's, University of London  
The School of Oriental and African Studies  
The School of Pharmacy  
UCL

## CENTRAL INSTITUTES

The University of London Institute in Paris  
University Marine Biological Station Millport

## SCHOOL OF ADVANCED STUDY

Institute of Advanced Legal Studies  
Institute of Classical Studies  
Institute of Commonwealth Studies  
Institute of English Studies  
Institute of Germanic and Romance Studies  
Institute of Historical Research  
Institute of Musical Research  
Institute of Philosophy  
Institute for the Study of the Americas  
Warburg Institute

## CENTRAL ACTIVITIES

The Careers Group, University of London  
Central and Administrative Support Services  
The External System  
Intercollegiate Halls of Residence  
Postgraduate Medical and Dental Deaneries  
    Kent, Surrey, Sussex Deanery  
    London Deanery  
University of London Research Library Services  
University of London Computer Centre  
University of London Housing Services  
University of London Union

The financial statements consolidate the central institutes and activities of the University with the exception of the University of London Union.

