



THE UNIVERSITY *of* LIVERPOOL

Chancellor

The Right Honourable The Lord Owen CH

Vice-Chancellor

Professor J. Drummond Bone, MA, FRSA

Deputy Vice-Chancellor

Professor Graham Dockray, BSc, PhD, HonFRCP, FMedSci, FRS

Pro-Vice-Chancellors

Professor Kelvin Everest, BA, PhD

Professor Chris Gaskell, BVSc, PhD, DVR, MRCVS

Professor Jon Saunders, BSc, PhD

Chief Operating Officer

Mr Ron Calvert, BSc, MBA

(from 1 November 2006)

Director of Finance

Mr Michael G.S. Yuille, BAcc CA

Professional Advisers

Auditors	PricewaterhouseCoopers LLP
Bankers	Barclays Bank plc
Lawyers	Pinsent Masons

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The Council of the University

Names Membership of key committees

Ex Officio:

The Chancellor The Right Honourable The Lord Owen CH, MBBChir, MA, FRCP

The Pro-Chancellor

Michael Potts, DL, FRSA, FCA 4

The Vice-Chancellor

Professor J. Drummond Bone, MA, FRSA 1,2,3

The Deputy Vice-Chancellor

Professor Graham Dockray, BSc, PhD, HonFRCP, FMedSci, FRS 1

The President of Council

Mark Blundell, BA 1,2,3

The Vice-President of Council

James Keaton, BSc, LL.D, FSDC, FBIM 1,3

The Treasurer

David McDonnell, CBE, DL, FCA, FRSA 1,3

The Deputy Treasurer

John Flamson, BA, MCD, MRTPI, MIMgt 1,2

The Pro-Vice-Chancellors:

Professor Kelvin Everest, BA, PhD 1,2

Professor Chris Gaskell, BVSc, PhD, DVR, MRCVS 1

Professor Jon Saunders, BSc, PhD 1

Lay Members:

2003-2006

Mark Blundell, DL, BA 1,2,3

M. Frank Cogley, BA, PGCE

James Keaton, BSc, LL.D, FSDC, FBIM 1,3

Judith Greensmith, DL, BCom 1,2,3

2004-2007

Guy Lance, BSc, CEng, MICE 4

Nirmala Pillay, PhD

Paula Ridley, OBE, JP, DL, LL.D, MA 4

2004-08

Helena Hurt Pinsent, BA

2005-2008

David Linnell, OBE, BA

Sir Howard Newby CBE, BA, PhD, HonDLitt, DU, AcSS

Patrick Reid, BSc, PhD, MBA, MCIM, MIOd

The Council of the University *continued*

Names	Membership of key committees
<i>2006-2008</i> Joseph Duffey, PhD Nigel Ward, BA, FRSA	
Senate Appointed/Elected Members:	
<i>2003-2006</i> Professor Anu Arora, LLB, PhD, Barrister	2
<i>2004-2006</i> John Richard Fry, MA, PhD, CPhys, MInstP	
<i>2004-2007</i> Professor David Bacon, PhD, DSc, FInstP, FIM, CEng, CPhys Professor Dinah Birch, BA, DPhil	
<i>2005-2008</i> Professor Laura McAllister, BSc, PhD Professor Michael Wooldridge, BSc, PhD	
President of the Guild of Students	
<i>2005-2006</i> M. Irfan Zaman, BA	2

The key committees of the University are:-

- (1) Planning & Resources Committee
- (2) Nominations Committee
- (3) Remuneration Committee
- (4) Audit Committee

Further information on these Committees is given in the Corporate Governance Statement on page 6.

Responsibilities of the Council of the University

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

Working through its Planning and Resources Committee and Audit Committee, the Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the Charter and Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education, and all relevant accounting and financial reporting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of 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 that year.

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

- suitable accounting policies are selected and applied consistently;
- judgments and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- they 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 and 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 may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud;
- 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 all heads of departments;
 - a comprehensive short and medium planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
 - regular reviews of academic performance and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
 - clearly defined and formalised requirements for approval and control of expenditure;
 - a formalised treasury management policy;
 - a comprehensive Financial Handbook detailing financial controls and procedures, approved by the Audit Committee and Council; and
 - a professional Internal Audit team whose programme of work is approved annually by the Audit Committee.

Corporate Governance Statement

The Council of the University is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal financial control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Council is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks. This process is regularly reviewed by the Council. It accords with the internal control guidance for directors of companies as set out in the Combined Code as deemed appropriate for higher education and with the HEFCE 'Best Practice' guidance on Risk Management and broad compliance with the Committee of University Chairs (CUC) Guidance.

The Council and the University's Senior Management Team receive reports setting out key performance and risk indicators. Council also receives regular reports from Audit Committee and Safety Committee setting out, where necessary, recommendations for change and improvement. The Council receives these reports rather than a process of reporting by exception to allow consideration of risk and control and thereby obtain a relevant degree of assurance. Council's view of the effectiveness of the system of internal control is also informed by the work of the executive officers of the University who have responsibility for the development and maintenance of the internal control framework.

The Council comprises lay and academic members appointed under the Statutes of the University, the majority of whom are non-executive (see pages 3 & 4 for members). The roles of President and Vice-President 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; by custom and under the Financial Memorandum with the Higher Education Funding Council for England and the Teacher Training Agency, the Council has the responsibility 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 of its subsidiary companies. The Council meets four times each year and has several Committees, the key ones being Planning and Resources Committee, a Nominations Committee, a Remuneration Committee and an Audit Committee. All of these Committees are formally constituted with terms of reference and contain significant lay member representation. Council membership of the key committee is shown on pages 3 & 4.

The Planning and Resources Committee, inter alia, recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Nominations Committee seeks and considers nominations for potential lay members of the Council.

The Remuneration Committee undertakes and determines the review of all professorial and senior administrative staff salaries, and the approval of any proposal for voluntary severance or early retirement of the most senior staff.

The Audit Committee, which meets quarterly, is responsible for meeting with the External Auditors to discuss their audit findings, and with the Internal Auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's response and implementation plans. They also receive and consider reports from the Higher Education Funding Council for England and the National Audit Office as they affect the University's business and monitor adherence with the regulatory requirements. They review the University's annual financial statements together with the accounting policies. They advise the Council on the appointment and remuneration of the Internal and External Auditors. Whilst senior executives and lay officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee may meet with the Internal and External Auditors on their own for independent discussions.

Report of the Treasurer

I am pleased to report on another successful year for the University.

Financial Highlights

	2006	2005
	£000	As Restated £000
Total Income	272,616	246,096
Total Expenditure	<u>263,420</u>	<u>237,039</u>
Surplus for the Year (post FRS 17 adjustment)	<u>9,196</u>	<u>9,057</u>

Total income was 11% up on the previous year and the actual outturn was also better than budget. Total expenditure rose by 11% and overall was just ahead of budget.

The University has continued to grow its income from externally funded research, recording an increase of £10.6 million to a total of just over £71 million. Already, in the current financial year, there are encouraging signs that this growth can be sustained, thus providing returns on the increased investment by the University in academic developments. Income from overseas tuition fees fell in the year, but there are signs that this has been corrected in the current financial year. Early indications show recruitment levels recovering. In terms of home recruitment, all targets have been met for 2005-06 with no adverse effect from the introduction of variable tuition fees. The attractiveness of the University to students from the UK/EU and across the world remains strong.

Endowment income and interest receivable was nearly 17% up on 2005 at £8.1 million (excluding £3.8 million pension finance income) reflecting successful management of the endowment portfolio and the investment of surplus cash balances.

Expenditure on wages and salaries grew by 9.9% in the year, an increase of just under £14.5 million. Expenditure on wages and salaries included £3.8 million arising from the adoption of FRS 17 (2005: £3.1 million). The increase is a combination of the annual salary award, promotions, increments and changes in pension and national insurance costs, together with some volume changes. Other operating expenses rose by £11 million, an increase of 13.5%. Depreciation was ahead of 2005 levels reflecting the increasing amount of capital expenditure.

The overall operating surplus for the year, marginally higher than 2005, was enhanced by the gain on the disposal of some land held by the University which was surplus to requirements. A considerable portion of the gain has been reinvested in improved sports facilities for our students.

Fixed Assets

During the year additions of £43.3 million were made to fixed assets. Of that total, additions to freehold land and buildings amounted to £24.9 million, leasehold land and buildings £13.5 million, with the balance being additions to equipment assets. The principal additions to land and buildings included expenditure on the refurbishment of the Engineering departments, the extension of the Sidney Jones library, the small animal teaching hospital, the acquisition and fitting out of the Foundation Building, refurbishments to Computing Science, the development of the new visitor centre at Ness Gardens, and a range of smaller projects. The University is continuing to invest in its estate and infrastructure and going forward has capital commitments totalling £77 million, as set out in note 13 to the accounts.

Endowment Assets

The past financial year has seen continued, and strong, recovery in global stock markets. The University's endowments have had a very good year, experiencing an overall increase in valuation of just over 10%, well ahead of the rate of inflation. In addition £0.3 million of new money was added.

Report of the Treasurer - *continued*

The performance of our fund managers continues to be monitored by the Investments Committee against targets set annually. In the year under review, both managers met their performance targets. The Investments Committee also monitors adherence to the University's ethical investment policy, referred to below.

Creditors Policy

The University aims to pay all of its suppliers promptly. The terms of payment of the University are 30 days from the date of invoice but specific terms and conditions can be agreed for certain suppliers if required. As at 31st July 2006 the University's trade creditors outstanding represented approximately 35 days (2005: 32 days) purchases.

Equal Opportunities Policy

The aim of the University's policy is to ensure that no job applicant or member of staff receives less favourable treatment on the grounds of disability, sex, marital status, religion, race, colour, nationality, or ethnic or national origins, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. Selection criteria and the procedures are reviewed to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. All members of staff will be given equal opportunity, and where appropriate, special training to progress within the University. The University is committed to ensuring that this policy remains fully effective.

Ethical Investment Policy

It is the role of the Council to set out the ethical platform on which the University's endowment asset investments are managed. The Council instructs its investment managers, through the Investments Committee, to invest University funds only with those companies who meet the criteria set for ethical investment. It is the role of the Investments Committee to maximise the potential returns on investments within such restrictions as established by Council. Fund Managers report regularly to the Investments Committee on actions they have taken relating to socially responsible investing.

The year under review has been another very successful one for the University, both academically and financially, and it is pleasing to see the strategic plan, built around the headings of "invest, collaborate and grow" being so successfully implemented.

DAVID McDONNELL CBE DL FCA FRSA
Treasurer

Auditors' Report

We have audited the financial statements ('the financial statements') of the University of Liverpool for the year ended 31 July 2006 which comprise the Consolidated Income and Expenditure Account, the Group and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Council and auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the university in accordance with the Charter and Statutes of the university and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the institution, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the institution's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the university has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Treasurer's report and the corporate governance statement.

We also review the statement of internal control included as part of the Corporate Governance Statement and comment if the statement is inconsistent with our knowledge of the institution and group. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Auditors' Report - *continued*

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. 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 governing body 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.

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:

- i. the financial statements give a true and fair view of the state of affairs of the university and the group at 31 July 2006, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- ii. in all material respects, income from the Higher Education Funding Council for England and 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;
- iii. in all material respects, income has been applied in accordance with the university's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool

Notes

a) The maintenance and integrity of the University of Liverpool's website is the responsibility of the Governing Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated Income and Expenditure Account

for the year ended 31 July 2006

		2005-2006	2004-2005
	Note	£000	As Restated £000
Income			
Funding Council Grants	2	96,729	88,100
Academic fees and support grants	3	44,004	44,189
Research grants and contracts	4	71,610	60,974
Other operating income	5	48,421	44,562
Endowment income and interest receivable	6	11,852	8,271
Total income		272,616	246,096
Expenditure			
Staff costs	9	161,280	146,796
Other operating expenses	7	92,700	81,643
Depreciation	11	9,103	8,248
Interest payable	7	337	352
Total expenditure		263,420	237,039
Surplus on continuing operations after depreciation of assets but before profit on sale of fixed assets and tax			
		9,196	9,057
Profit on the sale of Fixed Assets		5,285	2,284
Surplus on continuing operations after depreciation of assets and disposal of assets but before tax			
		14,481	11,341
Taxation credit	8	100	-
Surplus on continuing operations after depreciation of assets and disposal of assets and tax			
		14,581	11,341
Transfer to accumulated income within specified endowments		(316)	(803)
Surplus for the year retained within general reserves		14,265	10,538

- All operations are continuing.
- The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see note 30).
- There is no difference between the retained surplus shown above and its historical cost equivalent.
- The notes on pages 16 to 35 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 July 2006

	Note	2006 £000	2005 As Restated £000
Fixed Assets			
Tangible assets	11	196,913	162,690
Investments	14	<u>3,583</u>	<u>12,651</u>
		200,496	175,341
Endowment assets	15	119,300	107,705
Current assets			
Stocks and stores		712	555
Debtors and prepayments	17	42,543	37,439
Cash in hand, at bank and on deposit		<u>65,347</u>	<u>61,748</u>
		108,602	99,742
Creditors: Amounts falling due within one year	18	(54,341)	<u>(45,530)</u>
Net current assets		<u>54,261</u>	<u>54,212</u>
Total assets less current liabilities		374,057	337,258
Creditors: Amounts falling due after more than one year	19	<u>(4,956)</u>	<u>(4,374)</u>
Net assets excluding pension liability		369,101	332,884
Net pension liability	30	<u>(21,735)</u>	<u>(11,593)</u>
Net assets including pension liability		<u>347,366</u>	<u>321,291</u>
Represented by:			
Deferred capital grants	20	108,919	98,563
Endowments			
Specific	16	84,568	76,646
General	16	<u>34,732</u>	<u>31,059</u>
		119,300	107,705
Reserves			
Income and expenditure excluding pension reserve	22	138,252	123,986
Pension reserve	30	<u>(21,735)</u>	<u>(11,593)</u>
Income and expenditure including pension reserve		116,517	112,393
Revaluation reserve	21	<u>2,630</u>	<u>2,630</u>
		119,147	115,023
Total funds		<u>347,366</u>	<u>321,291</u>

The financial statements on pages 11 to 35 were approved by the Council on 13 December 2006 and signed on its behalf by:

D. McDONNELL
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S.YUILLE
Director of Finance

University Balance Sheet

as at 31 July 2006

	Note	2006 £000	2005 As Restated £000
Fixed assets			
Tangible assets	12	182,328	161,744
Investments	14	<u>21,812</u>	<u>17,202</u>
		204,140	178,946
Endowment assets	15	119,300	107,705
Current assets			
Stocks and stores		546	543
Debtors and prepayments	17	50,275	39,726
Cash in hand, at bank and on deposit		<u>64,417</u>	<u>61,699</u>
		115,238	101,968
Creditors: Amounts falling due within one year	18	<u>(60,664)</u>	<u>(50,894)</u>
Net current assets		<u>54,574</u>	<u>51,074</u>
Total assets less current liabilities		378,014	337,725
Creditors: Amounts falling due after more than one year	19	<u>(4,021)</u>	<u>(4,255)</u>
Net assets excluding pension liability		373,993	333,470
Net pension liability	30	<u>(21,735)</u>	<u>(11,593)</u>
Net assets including pension liability		<u>352,258</u>	<u>321,877</u>
Represented by:			
Deferred capital grants	20	108,919	98,563
Endowments			
Specific	16	84,568	76,646
General	16	<u>34,732</u>	<u>31,059</u>
		119,300	107,705
Reserves			
Income and expenditure excluding pension reserve	22	143,144	124,572
Pension Reserve	30	<u>(21,735)</u>	<u>(11,593)</u>
		121,409	112,979
Income and expenditure including pension reserve			
Revaluation reserve	21	<u>2,630</u>	<u>2,630</u>
		<u>124,039</u>	<u>115,609</u>
Total funds		<u>352,258</u>	<u>321,877</u>

The financial statements on pages 11 to 35 were approved by the Council on 13 December 2006 and signed on its behalf by:

D. McDONNELL
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S.YUILLE
Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2006

	Notes	2005-2006 £000	2004-2005 £000
Cash flow from operating activities	24	10,156	8,322
Returns on investments and servicing of finance	25	7,741	6,565
Taxation	8	100	-
Capital expenditure and financial investment	26	(23,441)	(1,981)
Management of liquid resources	27	828	13,309
Financing	28	(210)	(195)
		<hr/>	<hr/>
(Decrease)/Increase in cash in the period		<u>(4,826)</u>	<u>26,020</u>
 Reconciliation of net cash flow to movement in net funds/(debt)			
(Decrease)/Increase in cash in the period		(4,826)	26,020
Cash outflow from liquid resources		(828)	(13,309)
Change in net debt resulting from cash flows		<u>210</u>	<u>195</u>
Movement in net funds in period		(5,444)	12,906
Net funds at 1 August		<hr/> 71,683	<hr/> 58,777
Net funds at 31 July	29	<u>66,239</u>	<u>71,683</u>

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2006

	2006	2005
	£000	As Restated £000
Surplus on continuing operations after depreciation of assets and disposal of assets and tax	14,581	11,341
Other movements direct from reserves	(316)	(803)
Actuarial (Loss)/Gain in respect of pension scheme	(10,141)	6,546
Movement in income and expenditure reserves (note 22)	4,124	17,084
Appreciation of Endowment Asset Investments	11,313	15,678
New endowments	282	2,690
Prior Year Adjustment	(11,593)	-
Total recognised gains relating to the year	4,126	35,452
Reconciliation		
Opening reserves and endowments	234,321	187,276
Prior Year Adjustments (Note 31)	(11,593)	-
Total recognised gains for the year	15,719	35,452
Closing reserves and endowments	238,447	222,728

Notes to the Accounts

1 Statement of Accounting Policies

The financial statements have been prepared on the historical cost basis of accounting modified for the valuation of certain assets and are in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education (July 2003) and with relevant United Kingdom Accounting Standards. The principal accounting policies, which have been applied consistently, are set out below:

(a) **Change in Accounting Policy**

The University has adopted FRS 17 Retirement Benefits in the financial statements. The full adoption of the standard represents a change in accounting policy and the comparative figures have been restated accordingly. Details of the effect of adopting FRS 17 are given in Note 31. The effect of the change in accounting policy to adopt FRS 17 was to increase staff costs by £3.8 million (2005: £3.1 million) and interest receivable by £3.8 million (2005: £1.3 million), to decrease the operating surplus for the year by £nil (2005: £1.8 million) and to increase the total recognised losses by £10.1 million (2005: £6.5 million gain).

(b) **Basis of consolidation**

The consolidated financial statements include the University and its subsidiary undertakings (as detailed in note 14) for the year ended 31 July 2006. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS2, the activities of the student union have not been consolidated because the University does not control those activities.

The results for UL Library Services Limited, a company incorporated during the year, were consolidated into the financial statements from 19 June 2006 to 31 July 2006. UL Properties Limited was acquired during the year and its results covering a 13 month period to 31 July 2006 were consolidated into the financial statements. This brings the end of the financial period in line with that of the University.

(c) **Recognition of income**

Income is recognised in the period for which it is receivable.

Non-recurrent grants received or receivable to fund the acquisition of fixed assets are treated as deferred capital grants and released to income in line with the depreciation over the useful life of the assets to which the income relates.

The financial statements include certain items of income and expenditure managed through the Liverpool School of Tropical Medicine and these are also included in that institution's financial statements. Note 10 details the values of the amounts of income and expenditure consolidated into these financial statements.

(d) **Foreign currencies**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year-end rates. Resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

(e) **Tangible fixed assets**

These comprise the cost of land, buildings and equipment. Original furniture, fixtures, fittings and equipment included in the construction of a building, are capitalised and depreciated at 25% per annum on a straight-line basis. The cost of land is not depreciated.

Equipment costing over £25,000 is capitalised. Where funded by research grants, it is depreciated over the initial life of the grant, otherwise over 4 years.

Notes to the Accounts - *continued*

Depreciation is provided on buildings, using the straight-line method, on the following basis:

- (i) assets purchased prior to 1970: 2% per annum over 50 years;
- (ii) assets purchased since 1970: according to anticipated useful life, in the range 30–50 years;

Assets acquired on finance lease are depreciated over the life of the lease. Buildings acquired on a finance lease are depreciated over the life of the lease with the depreciation charge phased to match the deterioration of that asset.

(f) **Leases**

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 element of the leasing commitments is shown as obligations under current and long-term liabilities. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against surplus in proportion to the reducing capital element outstanding. Assets acquired on finance lease are depreciated over the life of the lease.

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

(g) **Works of art**

The University owns a considerable number of works of art most of which have been donated or bequeathed to the University. These works of art are not included in the financial statements, because it is considered that no meaningful value can be attributed to them, since very few could be sold by the University due to the restrictive nature of the acquisition.

(h) **Stock**

Stock is stated at the lower of cost and net realisable value except for stock at Wood Park Farm, which has been valued at market value.

(i) **Investments**

Listed investments are stated at market value. Investments in subsidiaries or in companies in which the University has been allotted shares are shown at cost. Investment properties were revalued at 31 July 2001 by external professionally qualified valuers.

Investments are reviewed for impairment to their value if there is any indication that impairment has occurred.

Increases in value over the original cost are credited to the revaluation reserve. Any deficit on revaluation which is not offset by amounts previously credited to and retained in the revaluation reserve in respect of that asset are written off to the Income and Expenditure Account.

(j) **Taxation**

The University is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506 (1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly the University, but not its subsidiary companies, is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA1988 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 group receives no similar exemption in respect of Value Added Tax.

Notes to the Accounts - *continued*

(k) **Deferred taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to arise in the future, calculated at the rates at which it is expected that tax will arise.

(l) **Pensions**

The two principal pensions schemes for University staff are the Universities Superannuation Scheme (USS) and the University of Liverpool Pension Fund (ULPF). Both schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The funds are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by each fund's trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme.

For ULPF, pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for in accordance with FRS 17.

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

INCOME

	2005-2006	2004-2005
	£000	£000
2 Funding Council Grants		
Recurrent grant - HEFCE	88,594	78,057
Specific grants	5,217	7,086
Deferred capital grant released in year (see note 20)	2,918	2,957
	<hr/>	<hr/>
	96,729	88,100
	<hr/>	<hr/>
3 Academic fees and support grants		
Home/EU students	26,706	25,267
Overseas students	16,074	16,908
Continuing education	126	141
Special courses	831	1,578
Support grants	267	295
	<hr/>	<hr/>
	44,004	44,189
	<hr/>	<hr/>

Notes to the Accounts - *continued*

INCOME - continued

	2005-2006 £000	2004-2005 £000
4 Research grants and contracts		
Income		
Research grants	35,992	33,677
Research contracts	35,618	27,297
	-----	-----
Total income	71,610	60,974
	-----	-----
Expenditure		
Research Grants	28,289	27,154
Research Contracts	30,083	23,054
	-----	-----
Total expenditure	58,372	50,208
	-----	-----
Contribution to indirect costs	13,238	10,766
	-----	-----
5 Other operating income		
Residences and catering	12,044	11,425
Health Authorities	5,964	6,169
Other services	13,469	12,365
Donations	420	203
Other income	16,524	14,400
	-----	-----
	48,421	44,562
	-----	-----
6 Endowment income and interest receivable		As Restated
Income from specific endowments	2,176	1,511
Income from general endowments	1,649	1,783
Income from short term deposits	4,062	3,401
Other investment income	191	222
Pension Finance Income	3,774	1,354
	-----	-----
	11,852	8,271
	-----	-----

Notes to the Accounts - *continued*

EXPENDITURE

	Staff	Other Op Exp & Interest	Depreciation	2006 Total	2005 Total As Restated
	£000	£000	£000	£000	£000
7 Analysis of Expenditure by Activity					
Academic departments	84,077	15,618	1,225	100,920	92,479
Research grants and contracts	30,591	27,781	1,729	60,101	52,237
Academic services	7,612	5,239	310	13,161	12,255
General educational expenditure	4,197	5,666	-	9,863	8,644
Maintenance of premises	7,965	13,403	5,087	26,455	23,894
Administration and central services (1)	10,056	4,684	-	14,740	14,387
Students & staff facilities & amenities	1,687	2,521	197	4,405	3,848
Residences and catering (2)	4,687	6,432	482	11,601	11,248
Severance costs and unfunded pensions	91	-	-	91	1,706
Miscellaneous expenditure	350	5,238	8	5,596	1,541
Other services rendered	6,192	6,455	65	12,712	11,665
Additional Pension Costs per FRS 17	3,775	-	-	3,775	3,135
	<u>161,280</u>	<u>93,037</u>	<u>9,103</u>	<u>263,420</u>	<u>237,039</u>

- (1) Included within Administration and Central Services are costs in respect of professional services as follows:

	2005-2006 £000	2004-2005 £000
PricewaterhouseCoopers LLP - Audit Fee - University	53	45
- Prior year	9	4
- Subsidiaries	13	14
- Taxation, consultancy and accountancy services	45	51
- Grant certification fee	-	14
KPMG LLP - Internal Audit	132	204
- Taxation, consultancy and accountancy services	94	76
Robson Rhodes - Taxation, consultancy and accountancy services	-	24

- (2) Residences and Catering 'Other Operating Expenses' includes interest payable of £337,001 (2005: £351,763) (see also note 25)

	2005-2006 £000	2004-2005 £000
8 Taxation		
United Kingdom corporation tax credit at 30%	100	-
	<u>100</u>	<u>-</u>

Notes to the Accounts - *continued*

EXPENDITURE - continued

	2005-2006	2004-2005 As Restated
	£000	£000
9 Staff costs		
Staff costs were:		
Salaries	129,733	118,256
Social security costs	10,856	9,827
Pension costs including FRS 17 adjustments (note 30)	20,691	18,713
	<hr/>	<hr/>
	161,280	146,796
	<hr/>	<hr/>
Emoluments of the Vice-Chancellor, including benefits in kind and pension contribution	252	210

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to USS are paid at the same rate as for other academic staff and amounted to £30,240 (2005: £25,200)

Compensation for loss of office paid to members of staff earning in excess of £50,000 per annum	200	73
---	-----	----

	Number	Number
Staff numbers by major category		
Academic/Clinical	2,436	2,273
Technical	487	476
Clerical	755	726
Other	465	458
	<hr/>	<hr/>
	4,143	3,933
	<hr/>	<hr/>

Remuneration bands of other higher paid staff, excluding pension costs but including payments made on behalf of the NHS in respect of staff with contracted clinical responsibilities

£70,000 - £79,999	48	36
£80,000 - £89,999	29	21
£90,000 - £99,999	17	15
£100,000 - £109,999	13	15
£110,000 - £119,999	13	6
£120,000 - £129,999	10	7
£130,000 - £139,999	7	8
£140,000 - £149,999	4	3
£150,000 - £159,999	6	6
£160,000 - £169,999	8	2
Over £170,000	15	15

Notes to the Accounts - *continued*

EXPENDITURE - continued

10 Related party transactions

Due to the nature of the University's operations and the composition of its Council (being drawn from local public and private sector organisations) and senior management team, it is inevitable that transactions will take place with organisations in which a member of Council or the senior management team may have an interest. All such transactions are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. It is noted that the following transactions are in this category. The value as reflected in the University accounts is shown:

	Income	Expenditure	Balances at 31.7.06 due to (from) the University
	£000	£000	£000
Professor J.D. Bone, trustee of Rosemary Young Persons Housing Trust which leases Melville Grove residences to the University	-	548	(4,255)
M.D. Carr, member of Royal Liverpool and Broadgreen University Hospital Trust, which funds posts and research grants and contracts and of accommodation occupied by the University	3,752	1,980	125
Professor J. Saunders and Miss C.M. Jones, members of the governing body of the Liverpool School of Tropical Medicine, which funds posts and research grants and contracts and receives a grant from the University	17,238	15,684	(267)
Mrs S.J. Rutherford, member of the Royal Liverpool Childrens (NHS) Trust - Alder Hey, which funds posts and research grants and contracts and of accommodation occupied by the University	1,000	53	161
M.D. Carr, non-executive director of Midas Capital Partners Ltd which manages some of the University's endowment assets		199	(19)
N.Ward, director of North Liverpool Academy Limited, for which the University of Liverpool Construction Company Limited is carrying out works at the property known as North Liverpool Academy, Hamilton Road, Liverpool 5		1	1
N.Ward, trustee of The NLA Trust to which the University of Liverpool Construction Company Limited provides for payments under gift aid		22	(22)

Notes to the Accounts - *continued*

BALANCE SHEET

11 Consolidated Tangible Fixed Assets

	Land and Buildings			Equipment	Total
	Freehold £000	Leasehold £000	Finance Lease £000	£000	£000
Cost at 1 August 2005	185,437	19,515	5,757	29,036	239,745
Additions in the year at cost	24,988	13,450	-	4,897	43,335
Less: Disposals during the year	2	-	-	3,315	3,317
Cost at 31 July 2006	210,423	32,965	5,757	30,618	279,763
Accumulated Depreciation					
At 1 August 2005	45,717	6,551	1,579	23,208	77,055
Charge for the year	3,965	816	217	4,105	9,103
Less: Eliminated on disposals	-	-	-	3,308	3,308
Depreciation at 31 July 2006	49,682	7,367	1,796	24,005	82,850
Net Book Value					
31 July 2006	160,741	25,598	3,961	6,613	196,913
1 August 2005	139,720	12,964	4,178	5,828	162,690

With effect from 1 August 2001, fully depreciated equipment has been written out of the accounts after a period of three years. The transaction is reflected in the financial statements as a disposal adjustment. During the financial year, fully depreciated equipment with an historic cost of £3.3 million was written out of the fixed asset accounts.

The University has freehold and leasehold interests in a wide range of properties including academic buildings, student residences and other associated properties. Land and buildings with a net book value of £83.1m, and a cost of £116.4m have been funded from Treasury sources; should these buildings be sold, the University would have to use the proceeds in accordance with the Financial Memorandum with the Higher Education Funding Council for England or surrender them to HM Treasury. The University has granted a long leasehold interest in a small part of its estate to Rosemary Young Persons Charitable Housing Ltd. (a charity), on which new student accommodation has been built. It has been agreed that the University will lease back this accommodation, with an option to purchase after 25 years (in the year 2019). This is the property to which the finance lease relates.

The insured value of the buildings is £893 million.

Included in the net book value of leasehold assets is a net sum of £12.19 million representing grant-aided expenditure on the Royal Liverpool University Hospital and the Dental Hospital, the title of which is vested in the Secretary of State for Social Services and for which the University has been granted a long lease.

Notes to the Accounts - *continued*

BALANCE SHEET - continued

12 University Tangible Fixed Assets

	Land and Buildings			Equipment	Total
	Freehold	Leasehold	Finance Lease		
	£000	£000	£000	£000	£000
Cost at 1 August 2005	185,437	19,497	5,757	25,739	236,430
Additions in the year at cost	23,197	2,590	-	3,633	29,420
Less: Transfer to Group Companies	601	-	-	-	601
Less: Disposals during the year	2	-	-	3,315	3,317
Cost at 31 July 2006	208,031	22,087	5,757	26,057	261,932
Accumulated Depreciation					
At 1 August 2005	45,717	6,533	1,579	20,857	74,686
Charge for the year	3,965	650	217	3,394	8,226
Less: Eliminated on disposals	-	-	-	3,308	3,308
Depreciation at 31 July 2006	49,682	7,183	1,796	20,943	79,604
Net Book Value					
31 July 2006	158,349	14,904	3,961	5,114	182,328
1 August 2005	139,720	12,964	4,178	4,882	161,744

13 Capital commitments

	2006 £million	2005 £million
Authorised not yet contracted	38	92
Authorised and contracted	39	42
	<u>77</u>	<u>134</u>

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

14 Fixed asset investments

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
Market value of fixed asset investments	380	9,524	380	9,524
Properties	3,203	3,127	3,203	3,127
<i>University companies at cost</i>				
University of Liverpool Energy Company Ltd (ULEC)			1	1
University of Liverpool Construction Company Ltd (ULCCo)			4,000	4,000
University of Liverpool Commercial Services Ltd (ULCS)			550	550
UL Properties Limited (ULPS)			13,678	
	3,583	12,651	21,812	17,202

The University owns 100% of the issued ordinary capital of ULEC, ULCCo, ULCS and ULPS. The University's subsidiary companies are all registered in England and Wales. The University is also the parent organisation of UL Library Services Limited, ULIVE Limited, ULIVE Enterprises Limited and Liverpool University Press Limited. All of these companies have been consolidated. The principal purpose of these companies is to support the activities of the University.

The University has been allocated, at no cost, a proportion of shares in the following companies, none of which are considered to be material and are therefore not consolidated in these financial statements.

	University Equity (%)		University Equity (%)
Pepsyn	3.5	PalindromeX	15.0
TheRyte	2.0	Muridica	24.9
IVMD Inc	0.6	QTechnologies	24.9
Liverpool Science Park	24.5	Connect Internet Solutions	25.0
Aerogistic Systems	50.0	Neocare	13.5
Delphic Europe	5.0	Nanositec	60.0
Provexis IBD	25.0		

15 Endowment assets

	Consolidated		University	
	2006 £000	2005 £000	2006 £000	2005 £000
As at 1 August	107,705	89,337	107,705	89,337
Purchases of investments	30,787	20,966	30,787	20,966
Disposals of investments	(21,674)	(13,126)	(21,674)	(13,126)
Appreciation on revaluation	3,023	13,100	3,023	13,100
Decrease in cash balances	(541)	(2,572)	(541)	(2,572)
As at 31 July	119,300	107,705	119,300	107,705

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

16 Endowments

	Specific £000	General £000	Total £000
CAPITAL BALANCES			
At 1 August 2005	72,573	31,059	103,632
New endowments received in the year	168	105	273
Capital balances utilised	(75)	-	(75)
Realised profits in year	5,169	2,806	7,975
Appreciation of endowment asset investments	2,261	762	3,023
	<u> </u>	<u> </u>	<u> </u>
At 31 July 2006	80,096	34,732	114,828
	<u> </u>	<u> </u>	<u> </u>
INCOME BALANCES			
At 1 August 2005	4,073	-	4,073
New endowments received in the year	9	-	9
Income for year	2,176	1,649	3,825
Payments in the year	(1,786)	(1,649)	(3,435)
	<u> </u>	<u> </u>	<u> </u>
At 31 July 2006	4,472	-	4,472
	<u> </u>	<u> </u>	<u> </u>
Total	84,568	34,732	119,300
	<u> </u>	<u> </u>	<u> </u>

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
17 Debtors				
Amounts falling due within one year:				
Debtors - trade	25,157	25,778	25,166	25,778
- intergroup	-	-	8,462	2,293
Prepayments and accrued income	17,386	11,661	16,647	11,655
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	42,543	37,439	50,275	39,726
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Included within intergroup debtors is £154,228 due over one year (2005: £204,228).

18 Creditors: Amounts falling due within one year

Bank Overdraft	359	838	352	838
Obligations under finance leases	234	217	234	217
Creditors - trade	36,317	28,222	35,815	27,739
- intergroup	-	-	7,798	5,847
Deferred Income	509	-	336	-
Social security and other taxation	5,521	3,328	5,338	3,328
Accrued charges	11,401	12,925	10,791	12,925
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	54,341	45,530	60,664	50,894
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Provision has been made within creditors for VAT payable in respect of an assessment raised by HMRC to the extent that the University's professional advisers consider necessary. There is a possibility that the total paid may ultimately exceed the provision, but this is not thought to be likely on the basis of advice received.

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
19 Creditors: Amounts falling due after one year				
Obligations under finance leases				
due 2-5 years	1,125	1,046	1,125	1,046
due over 5 years	2,896	3,209	2,896	3,209
Other creditors	935	119	-	-
	<u>4,956</u>	<u>4,374</u>	<u>4,021</u>	<u>4,255</u>

20 Deferred capital grants - university and consolidated

	Funding Council £000	Other Grants & Benefactions £000	Total £000
At 1 August 2005			
Buildings	75,791	19,159	94,950
Equipment	1,625	1,988	3,613
Total	<u>77,416</u>	<u>21,147</u>	<u>98,563</u>
Cash received/receivable			
Buildings	10,243	2,534	12,777
Equipment	78	2,732	2,810
Total	<u>10,321</u>	<u>5,266</u>	<u>15,587</u>
Released to income and expenditure			
Buildings	2,071	495	2,566
Equipment	847	1,818	2,665
Total	<u>2,918</u>	<u>2,313</u>	<u>5,231</u>
At 31 July 2006			
Buildings	83,963	21,198	105,161
Equipment	856	2,902	3,758
Total	<u>84,819</u>	<u>24,100</u>	<u>108,919</u>

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

	2006		2005	
	£000		£000	
21 Revaluation reserve				
Consolidated and University Balance 1 August	2,630		2,630	
	<u> </u>		<u> </u>	
Balance 31 July	2,630		2,630	
	<u> </u>		<u> </u>	
22 Income and expenditure reserves				
	Consolidated		University	
	2006	2005	2006	2005
	£000	As Restated £000	£000	As Restated £000
Balance 1 August as previously stated	112,393	111,667	112,979	112,087
Prior Year Adjustment in respect of FRS 17	<u> -</u>	<u>(16,358)</u>	<u> -</u>	<u>(16,358)</u>
At 1 August as restated	112,393	95,309	112,979	95,729
Surplus on income and expenditure account	14,265	10,538	18,571	10,704
Actuarial (Loss)/Gain	(10,141)	6,546	(10,141)	6,546
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Balance 31 July 2006	116,517	112,393	121,409	112,979
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Represented by:				
Allocated to University Departments	39,354	40,756	39,354	40,756
University Development Fund	36,342	19,916	36,342	19,916
For capital purposes	67,448	63,900	67,448	63,900
Subsidiaries	(4,892)	<u>(586)</u>	<u> -</u>	<u> -</u>
Income & Expenditure Excluding Pension Reserve	138,252	123,986	143,144	124,572
Pension Reserve	(21,735)	(11,593)	(21,735)	(11,593)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	116,517	112,393	121,409	112,979
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

23 Access Funds

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Funding Council grants	863	831
Interest earned	11	3
	<u> </u>	<u> </u>
	874	834
Disbursed to students	(831)	(915)
Audit fees	(1)	(1)
	<u> </u>	<u> </u>
Balance under/(over) spent at 31 July	42	(82)
	<u> </u>	<u> </u>

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

Notes to the Accounts - *continued*

CASH FLOW

	Year ended 31 July 2006	Year ended 31 July 2005 As Restated
	£000	£000
24 Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities		
Surplus on continuing operations after depreciation of assets	14,481	11,341
Pension costs less contributions payable	1	1,781
Depreciation (notes 1 & 11)	9,103	8,248
Deferred capital grants released to income (notes 2 & 20)	(5,231)	(5,580)
Finance lease interest charge	337	352
Gain on sale of fixed assets	(5,285)	(2,284)
Increase in stocks	(157)	(86)
Increase in debtors	(5,104)	(1,569)
Increase in creditors	10,089	3,036
Investment income	(8,078)	(6,917)
Net cash inflow from operating activities	<u>10,156</u>	<u>8,322</u>
25 Returns on Investments and Servicing of Finance		
Income from endowments	3,825	3,294
Other interest received	4,062	3,401
Other investment income	191	222
Interest element of finance lease rental payment	(337)	(352)
Net cash inflow from returns on investment and servicing of Finance	<u>7,741</u>	<u>6,565</u>
26 Capital Expenditure and Financial Investment		
Purchase of tangible fixed assets	(43,335)	(13,316)
Payments to acquire endowment assets	(30,787)	(20,966)
Receipt from sale of fixed assets	5,175	9,200
Receipt from sale of endowment assets	29,652	14,910
Deferred capital grants received	15,572	5,501
Endowments received	282	2,690
Net cash outflow from capital expenditure and Financial investment	<u>(23,441)</u>	<u>(1,981)</u>

Notes to the Accounts – *continued*

CASH FLOW - continued

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
27 Management of Liquid Resources		
Purchase of Investments	132	36
Placing of deposits	-	10,700
Movement in endowment assets	696	2,573
Net cash inflow from management of liquid resources	<u>828</u>	<u>13,309</u>

28 Financing

Debt due beyond a year:

Capital element of finance lease rental payments	(210)	(195)
Net cash outflow from financing	<u>(210)</u>	<u>(195)</u>

29 Analysis of Changes in Net Funds

	At 1 August 2005 £000	Cashflows £000	Other changes £000	At 31 July 2006 £000
Cash in hand, and at bank	61,748	3,599	-	65,347
Endowment assets investments	6,047	(541)	-	5,506
Overdrafts	(838)	479	-	(359)
Fixed Asset Investments	9,198	(9,198)	-	-
	<u>76,155</u>	<u>(5,661)</u>	-	<u>70,494</u>
Finance leases				
Debt due within 1 year	(217)	(17)	-	(234)
Debt due after 1 year	(4,255)	234	-	(4,021)
	<u>71,683</u>	<u>(5,444)</u>	<u>-</u>	<u>66,239</u>

Notes to the Accounts - *continued*

30 Retirement benefits

The basis of the contributions to the schemes below are the long-term contribution rates. The total pension cost for the University was:

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Contributions to Universities Superannuation Scheme	12,240	10,546
Contributions to University of Liverpool Pension Fund	7,306	6,980
Contributions to other schemes	1,079	842
Backdated pension contribution	66	345
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Total Pension Cost (note 9)	20,691	18,713
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Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee- administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 Retirement Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pension. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.5% per annum, salary increases would be 3.9% per annum and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million leaving a deficit of assets of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 100% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

The University contribution rate required for future service benefits alone at the date of the valuation was 14.3% of salaries but the trustee company, on the advice of the actuary, decided to maintain the institution rate at 14% of pensionable salaries.

Notes to the Accounts - *continued*

Surpluses or deficits which arise at future valuations may impact on universities' future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension contributions to USS for the University was £12,240k (2005 : £10,546k). The contribution rate payable by the University was 14% of pensionable salaries.

University of Liverpool Pension Fund (ULPF)

The ULPF is a defined benefit scheme operated in the UK. The pension cost for the year for ULPF has been assessed by reference to FRS 17. The principal assumptions made were that earnings would increase by 2% per annum over and above price inflation, and investment returns would be 2.6% per annum over and above price inflation. The rate of contributions paid takes into account the results of the actuarial valuation carried out as at 31 July 2003, and the pension cost reflects the contributions actually paid. The funding level at that date was 107% on the continuing valuation basis. The major assumptions used by the actuary were (in nominal terms):

	At year-end 31 July 2006	At year-end 31 July 2005	At year-end 31 July 2004
	%	%	%
Rate of increase in salaries	5.00	4.75	5.00
Rate of increase in pensions in payment	3.00	2.75	3.00
Revaluation rate for deferred pensioners	3.00	2.75	3.00
Discount rate	5.00	5.00	5.75
Inflation assumption	3.00	2.75	3.00

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

	Long-term rate of return expected at 31 July 2006	Fair Value at 31 July 2006	Long-term rate of return expected at 31 July 2005	Fair Value at 31 July 2005	Long-term rate of return expected at 31 July 2004	Fair Value at 31 July 2004
	%	£000	%	£000	%	£000
Equities	8.00	136,699	8.00	132,760	8.00	115,807
Bonds	5.00	38,389	5.00	28,299	5.25	23,409
Cash	4.25	2,614	4.25	563	4.75	8,759
Property	8.00	18,909	8.00	16,585	8.00	-
Total market value of assets		196,611		178,207		147,975

	At year-end 31 July 2006 £000	At year-end 31 July 2005 £000	At year-end 31 July 2004 £000
Total market value of assets	196,611	178,207	147,975
Actuarial present value of scheme liabilities	(218,346)	(189,800)	(164,333)
(Deficit)/surplus in the scheme	<u>(21,735)</u>	<u>(11,593)</u>	<u>(16,358)</u>

Notes to the Accounts - *continued*

Analysis of the amount charged to income and expenditure account

	31 July 2006	31 July 2005
	£000	£000
Employer service costs (net of employee contributions)	7,167	5,853
Past service costs	102	736
	<hr/>	<hr/>
Total operating charge	<u>7,269</u>	<u>6,589</u>

Analysis of pension finance income

	31 July 2006	31 July 2005
	£000	£000
Expected return on pension scheme assets	13,301	10,848
Interest on pension liabilities	(9,527)	(9,494)
	<hr/>	<hr/>
Pension finance income	<u>3,774</u>	<u>1,354</u>

Amount recognised in the statement of total recognised gains and losses (STRGL):

	Year to	Year to
	31 July 2006	31 July 2005
	£000	£000
Actuarial return less expected return on assets	7,388	20,947
Experience gains and losses on liabilities	(3,859)	2,754
Changes in assumptions underlying the present value	(13,670)	(17,155)
	<hr/>	<hr/>
Actuarial gain/(loss)	<u>(10,141)</u>	<u>6,546</u>

Notes to the Accounts - *continued*

Movement in illustrative balance sheet figures during the year:

	2005-2006 £000	2004-2005 £000
(Deficit)/Surplus in scheme at beginning of year	(11,593)	(16,358)
Movement in year:		
Current service cost	(7,167)	(5,853)
Contributions	3,494	3,454
Past service costs	(102)	(736)
Net interest/return on assets	3,774	1,354
Actuarial gain/(loss)	(10,141)	6,546
	<hr/>	<hr/>
(Deficit) in scheme at end of year	(21,735)	(11,593)
	<hr/>	<hr/>

The total pension contribution to ULPF was £4,190k (2005: £4,190k). The contribution rate payable by the University was 12.4% of pensionable salaries.

Experience gains and losses:

	Year to 31 July 2006 £000	Year to 31 July 2005 £000	Year to 31 July 2004 £000	Year to 31 July 2003 £000	Year To 31 July 2002 £000
Difference between expected and actual return on scheme assets:					
amount (£000)	7,388	20,947	69	(2,425)	(37,654)
percentage of scheme assets	4%	12%	0%	(2%)	(29%)
Experience gains and losses on scheme liabilities:					
amount (£000)	(3,859)	2,754	10,038	1,600	616
percentage of scheme liabilities	(2%)	1%	6%	1%	1%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
amount (£000)	(13,670)	(17,155)	(10,897)	(26,075)	-
percentage of scheme liabilities	(6%)	(9%)	(7%)	(17%)	-
Total amount which recognised in statement of total recognised gains and losses:					
amount (£000)	(10,141)	6,546	(790)	(26,900)	(37,038)
percentage of scheme liabilities	(5%)	3%	0%	(18%)	(31%)

Notes to the Accounts - *continued*

31 Prior Year Adjustment

The prior year adjustment relates to the full implementation of FRS 17.

FRS 17 requires the assets of defined benefit pension schemes, such as the ULPF scheme, to be measured at market value at each balance sheet date, and the liabilities to be measured using a specific valuation method and to be discounted using a corporate bond rate. Any resulting share of the pension scheme surplus or deficit is recognised on the University balance sheet. Any resulting gains and losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the income and expenditure account.

The adoption of FRS 17 has resulted in the following impact on the income and expenditure account and statement of total recognised gains and losses. In accordance with the transitional arrangements of FRS 17, these figures have been reported in the notes to the University of Liverpool since year ending 31 July 2001.

	Year ended 31 July 2005 £000 Consolidated	Year ended 31 July 2005 £000 University
Income and expenditure account reserve as previously stated (Note 22)	123,986	124,572
Pension liability at 1 August 2004	(16,358)	(16,358)
Movement during 2004/05:		
Employer service cost	(5,853)	(5,853)
Employer contributions	3,454	3,454
Past service cost	(736)	(736)
Net interest/return on assets	1,354	1,354
Actuarial gain/(loss)	<u>6,546</u>	<u>6,546</u>
Income and expenditure reserve as restated 31 July	<u>112,393</u>	<u>112,979</u>
Analysis of prior year adjustment:		
Adjustment to opening income and expenditure account reserve at 1 August 2004	(16,358)	(16,358)
Adjustment to Income and Expenditure Account for year ended 31 July 2005	(1,781)	(1,781)
Adjustment to statement of total recognised gains and losses for the year ended 31 July 2005	<u>6,546</u>	<u>6,546</u>
Pension Reserve	<u>(11,593)</u>	<u>(11,593)</u>