



The Chancellor

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

The Pro-Chancellor

Michael S. Potts, DL, FRSA, FCA (until 31 December 2006)

Mark F. W. Blundell, DL, BA (from 1 January 2007)

The Vice-Chancellor

Professor J. Drummond Bone, MA, FRSA

The Deputy Vice-Chancellor

Professor Graham J. Dockray, BSc, PhD, FMedSci, FRCP(Hon), FRS

The President

Mark F. W. Blundell, DL, BA (until 31 December 2006)

David McDonnell, CBE, DL, FCA, FRSA (from 1 January 2007)

The Treasurer

David McDonnell, CBE, DL, FCA, FRSA (until 31 December 2006)

Professor James Keaton, BSc, LL.D, FSDC, FBIM (from 1 January 2007) (Also Vice-President)

The Deputy Treasurer

John R. Flamson, BA, MCD, MRTPI, MIMgt

Pro-Vice-Chancellors

Professor Kelvin D. Everest, BA, PhD

Professor Christopher J. Gaskell, BVSc, PhD, DVR, MRCVS

Professor Jonathan R. Saunders, BSc, PhD

Chief Operating Officer

Ron Calvert, BSc, MBA (from November 2006)

Director of Finance

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:	
<i>The Chancellor</i> The Right Honourable The Lord Owen, CH, MA, MBBChir, FRCP	
<i>The Pro-Chancellor</i>	
Michael S. Potts, DL, FRSA, FCA (until 31 December 2006)	4
Mark F. W. Blundell, DL, BA (from 1 January 2007)	4
<i>The Vice-Chancellor</i>	
Professor J. Drummond Bone, MA, FRSA	1,2,3
<i>The Deputy Vice-Chancellor</i>	
Professor Graham J. Dockray, BSc, PhD, FMedSci, FRCP(Hon), FRS	1,2
<i>The President of Council</i>	
Mark F. W. Blundell, DL, BA (until 31 December 2006)	1,2,3
David McDonnell, CBE, DL, FCA, FRSA (from 1 January 2007)	1,2,3
<i>The Treasurer</i>	
David McDonnell, CBE, DL, FCA, FRSA (until 31 December 2006)	1,3
Professor James Keaton, BSc, LL.D, FSDC, FBIM (from 1 January 2007)	1,3
(Also Vice-President)	1,3
<i>The Deputy Treasurer</i>	
John R. Flamson, BA, MCD, MRTPI, MIMgt	1,2
<i>The Pro-Vice-Chancellors:</i>	
Professor Kelvin D. Everest, BA, PhD	1
Professor Christopher J. Gaskell, BVSc, PhD, DVR, MRCVS (until 31 July 2007)	1
Professor Jonathan R. Saunders, BSc, PhD	1
Appointed by the Court:	
David P. Linnell, OBE, BA	
Patrick M. Reid, BSc, PhD, MBA, MCIM, MIOd	2,4
Sir Howard J. Newby, CBE, BA, PhD, Hon DLitt, DU, AcSS (until July 2007)	
Appointed by the Council:	
Guy Lance, BSc, CEng, MICE	4
Nirmala Pillay, PhD	
Paula F. C. Ridley, OBE, JP, DL, MA, LL.D	4 (until December 2006) 1 (from January 2007)
Joseph D. Duffey, PhD	
Judith Greensmith, DL, BCom	1,2,3
Nigel M. Ward, BA, FRSA (until January 2007)	

The Council of the University *continued*

Names

Membership of key committees

Senate Appointed/Elected Members:

Professor David J. Bacon, PhD, DSc, FInstP, FIM, CEng, CPhys

Professor Dinah L. Birch, BA, DPhil

Professor Laura J. McAllister, BSc, PhD

Professor Michael J. Wooldridge, BSc, PhD

John R. Fry, MA, PhD, CPhys, FInstP

Professor Anu Arora, LLB, PhD, Barrister

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Elected by the Convocation

Helena V Hurt Pinsent, BA

The President of the Guild of Students

Darran Martin

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 a minimum of 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 present my first report as Treasurer having succeeded by David McDonnell in January of this year, and I should like to take this opportunity to acknowledge his contribution to the University in that role.

Review of the Year

The University continued to pursue its strategy of investment in advance of the forthcoming research assessment exercise with further appointments of key staff, together with expenditure on facilities and infrastructure. The financial outcome for the year is fully disclosed in the financial statements so I shall use my report to expand upon certain key figures.

The operating deficit for the year of just under £1 million is after a number of non-recurring expenditure items approved by the University Council towards the end of the financial year. Notably this included an additional £1.6M on health and safety works plus a further investment of £0.5M for electronic journals for the Library, enhancing its position as a major research facility.

The result for the year was also adversely affected by the decision to wind up the subsidiary company that operated the University's libraries. The decision was effectively forced on the University by HMRC who took the view that the operation of the company was an 'abuse of law', terminology drawn from the European courts. Although the University had legal and professional advice that this was not the case, it became apparent that similar companies operated by other Universities were being similarly challenged. It was with great reluctance that the decision was taken not to contest the HMRC stance. This has resulted in a one time charge of £1.5M which is the writing down of the assets of ULLS Ltd. It has also increased the cost of construction of the extension of the University's Sydney Jones Library by approximately £2.5M.

The University Balance Sheet remains strong, with total group assets in excess of £438M, an increase of some £90M from 2006. Tangible fixed assets increased in value by some £73M and cash balances by some £37M. The most notable additions to fixed assets include Engineering (£10.9M), Sydney Jones Library (£9.2M) and the Victoria Building (£4.1M). The increase in cash is due in large part to the University issuing a private placement in December 2006. This was timed to take advantage of low long term borrowing costs and a fixed rate of effectively 4.98% was achieved. The cash which is currently surplus to immediate requirements has given The University the ability to respond to investment opportunities. The surplus cash is presently invested at rates greater than the cost of funds, contributing to the growth of interest earnings during the year.

Despite the recent and continuing volatility in global finance markets, the investment managers working for the University have done well. University endowment assets have grown by some £6.8 million, a total return of 5.7%, well ahead of inflation. The assets of the University's pension fund have also benefited from good management and together with better bond yields have resulted in the FRS17 position being a deficit of just over £7M, an improvement of £14M on 2006. As the position in 2005 was a deficit of £11M, these figures highlighted the difficulty in accounting at a specific date for a long term pension fund.

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 2007 the University's trade creditors outstanding represented approximately 34 days (2006: 35 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 than 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,

Report of the Treasurer - *continued*

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 been taken relating to socially responsible investing.

Conclusion

The year that has recently ended has been a successful contribution to the University strategy, encapsulated as 'invest, collaborate and grow'. I would highlight that success is not simply measured by the value of a surplus or deficit for the year but by the overall position. The Balance Sheet remains strong together with a series of very positive academic measures. Significant investment has been made and they will now be monitored to review the returns.

The ongoing development of our Chinese venture, the trading relationship with Laureate, strong student recruitment, and growing research income, are vital to sustaining the University. It is by continuing to grow the University's income that future sustainability, and the achievement of our strategic objectives will be secured.

PROFESSOR JAMES KEATON BSc LLd FSDC FBIM
Treasurer

Auditors' Report

We have audited the financial statements ('the financial statements') of the University of Liverpool for the year ended 31 July 2007 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 2007, 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 2007

	Note	2006-2007 £000	2005-2006 £000
Income			
Funding Council Grants	2	100,203	96,729
Academic fees and support grants	3	53,265	44,004
Research grants and contracts	4	78,966	71,610
Other operating income	5	58,661	48,421
Endowment income and interest receivable	6	12,541	11,852
Total income		303,636	272,616
Expenditure			
Staff costs	9	177,435	161,280
Other operating expenses	7	115,911	92,700
Write down of assets within University of Liverpool Library Services	7	1,524	-
Depreciation	11	9,700	9,103
Interest payable	7	1,584	337
Total expenditure		306,154	263,420
(Deficit)/Surplus on continuing operations after depreciation of assets but before profit on sale of fixed assets and tax		(2,518)	9,196
Profit on the sale of Fixed Assets		-	5,285
(Deficit)/Surplus on continuing operations after depreciation of assets and disposal of assets but before tax		(2,518)	14,481
Taxation (charge)/credit	8	(178)	100
(Deficit)/Surplus on continuing operations after depreciation of assets and disposal of assets and tax		(2,696)	14,581
Transfer to accumulated income within specified endowments		(1,594)	(316)
(Deficit)/Surplus for the year retained within general reserves		(4,290)	14,265

- All operations are continuing, with the exception of UL Library Services Limited, which will cease to trade in the next financial year.
- There is no difference between the retained surplus shown above and its historical cost equivalent.
- The notes on pages 16 to 41 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 July 2007

	Note	2007 £000	2006 £000
Fixed Assets			
Tangible assets	11	269,352	196,913
Investments	14	<u>5,693</u>	<u>3,583</u>
		275,045	200,496
Endowment assets	15	133,629	119,300
Current assets			
Stocks and stores		882	712
Debtors and prepayments	17	54,229	42,543
Investments		3,061	-
Cash in hand, at bank and on deposit		<u>102,181</u>	<u>65,347</u>
		160,353	108,602
Creditors: Amounts falling due within one year	18	<u>(77,949)</u>	<u>(54,341)</u>
Net current assets		<u>82,404</u>	<u>54,261</u>
Total assets less current liabilities		491,078	374,057
Creditors: Amounts falling due after more than one year	19	<u>(44,855)</u>	<u>(4,956)</u>
Net assets excluding pension liability		446,223	369,101
Net pension liability	31	<u>(7,226)</u>	<u>(21,735)</u>
Net assets including pension liability		<u>438,997</u>	<u>347,366</u>
Represented by:			
Deferred capital grants	20	166,768	108,919
Endowments			
Specific	16	100,422	84,568
General	16	<u>33,207</u>	<u>34,732</u>
		133,629	119,300
Capital and Reserves			
Share Premium Account		250	
Income and expenditure excluding pension reserve	22	140,691	138,252
Pension reserve	31	<u>(7,226)</u>	<u>(21,735)</u>
Income and expenditure including pension reserve		133,465	116,517
Revaluation reserve	21	<u>4,885</u>	<u>2,630</u>
		<u>138,350</u>	<u>119,147</u>
Total funds		<u>438,997</u>	<u>347,366</u>

The financial statements on pages 11 to 41 were approved by the Council on 12th December 2007 and signed on its behalf by:

J. KEATON
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S.YUILLE
Director of Finance

University Balance Sheet

as at 31 July 2007

	Note	2007 £000	2006 £000
Fixed assets			
Tangible assets	12	221,710	182,328
Investments	14	<u>23,876</u>	<u>21,812</u>
		245,586	204,140
Endowment assets	15	126,093	119,300
Current assets			
Stocks and stores		526	546
Debtors and prepayments	17	52,716	50,275
Cash in hand, at bank and on deposit		<u>88,079</u>	<u>64,417</u>
		141,321	115,238
Creditors: Amounts falling due within one year	18	<u>(62,038)</u>	<u>(60,664)</u>
Net current assets		<u>79,283</u>	<u>54,574</u>
Total assets less current liabilities		450,962	378,014
Creditors: Amounts falling due after more than one year	19	<u>(43,863)</u>	<u>(4,021)</u>
Net assets excluding pension liability		407,099	373,993
Net pension liability	31	<u>(7,226)</u>	<u>(21,735)</u>
Net assets including pension liability		<u>399,873</u>	<u>352,258</u>
Represented by:			
Deferred capital grants	20	135,894	108,919
Endowments			
Specific	16	94,615	84,568
General	16	<u>31,478</u>	<u>34,732</u>
		126,093	119,300
Reserves			
Income and expenditure excluding pension reserve	22	140,767	143,144
Pension Reserve	31	<u>(7,226)</u>	<u>(21,735)</u>
		133,541	121,409
Income and expenditure including pension reserve			
Revaluation reserve	21	<u>4,345</u>	<u>2,630</u>
		<u>137,886</u>	<u>124,039</u>
Total funds		<u>399,873</u>	<u>352,258</u>

The financial statements on pages 11 to 41 were approved by the Council on 12th December 2007 and signed on its behalf by:

J. KEATON
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S. YUILLE
Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2007

	Notes	2006-2007 £000	2005-2006 £000
Cash flow from operating activities	25	11,295	10,156
Returns on investments and servicing of finance	26	8,176	7,741
Taxation	8	(178)	100
Capital expenditure and financial investment	27	(23,740)	(23,441)
Management of liquid resources	28	1,726	828
Financing	29	39,766	(210)
		<hr/>	<hr/>
(Decrease)/Increase in cash in the period		37,045	(4,826)
		<hr/>	<hr/>
Reconciliation of net cash flow to movement in net funds/(debt)			
(Decrease)/Increase in cash in the period		37,045	(4,826)
Cash outflow from liquid resources		(1,726)	(828)
Change in net debt resulting from cash flows		<u>(39,766)</u>	<u>210</u>
Movement in net funds in period		(4,447)	(5,444)
Net funds at 1 August		66,239	71,683
		<hr/>	<hr/>
Net funds at 31 July	30	<u>61,792</u>	<u>66,239</u>

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2007

	2007 £000	2006 £000
(Deficit)/Surplus on continuing operations after depreciation of assets and disposal of assets and tax	(2,696)	14,581
Other movements direct from reserves	4,276	(316)
Actuarial (Loss)/Gain in respect of pension scheme	15,368	(10,141)
	<hr/>	<hr/>
Movement in income and expenditure reserves (note 22)	16,948	4,124
Appreciation of Endowment Asset Investments	6,595	11,313
New endowments	624	282
LSTM Endowments 1 August 2006	7,079	-
LSTM Revaluation Reserve 1 August 2006	376	-
Endowment income utilised	31	-
Gain on revaluation of investment properties	2,721	-
Transfer from investment properties to fixed assets	(842)	-
Prior Year Adjustment	-	(11,593)
	<hr/>	<hr/>
Total recognised gains relating to the year	33,532	4,126
	<hr/>	<hr/>
Reconciliation		
Opening reserves and endowments	238,447	234,321
Prior Year Adjustments (Note 31)	-	(11,593)
Total recognised gains for the year	33,532	15,719
	<hr/>	<hr/>
Closing reserves and endowments	271,979	238,447
	<hr/>	<hr/>

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) **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 2007. 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 financial statements include full consolidation of the results of the Liverpool School of Tropical Medicine, an affiliated organisation whose results have been partially consolidated in previous years.

(b) **Recognition of income**

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

Non-recurrent grants and donations 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.

(c) **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.

(d) **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.

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.

Notes to the Accounts - *continued*

(e) **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.

(f) **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.

(g) **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.

(h) **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 2007 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.

Non-endowment investments held by LSTM are held as current assets as they are available to be drawn down on demand.

(i) **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*

(j) **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.

(k) **Pensions**

The two principal pension 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

	2006-2007	2005-2006
	£000	£000
2 Funding Council Grants		
Recurrent grant - HEFCE	94,177	88,594
Specific grants	3,284	5,217
Deferred capital grant released in year (see note 20)	2,742	2,918
	<hr/>	<hr/>
	100,203	96,729
	<hr/>	<hr/>
3 Academic fees and support grants		
Home/EU students	32,734	26,706
Overseas students	18,304	16,074
Continuing education	240	126
Special courses	1,760	831
Support grants	227	267
	<hr/>	<hr/>
	53,265	44,004
	<hr/>	<hr/>

Notes to the Accounts - *continued*

INCOME - continued

	2006-2007 £000	2005-2006 £000
4 Research grants and contracts		
Income		
Research grants	39,793	35,992
Research contracts	39,173	35,618
	-----	-----
Total income	78,966	71,610
	-----	-----
Expenditure		
Research Grants	31,655	28,289
Research Contracts	33,516	30,083
	-----	-----
Total expenditure	65,171	58,372
	-----	-----
Contribution to indirect costs	13,795	13,238
	-----	-----
5 Other operating income		
Residences and catering	12,151	12,044
Health Authorities	8,567	5,964
Other services	15,181	13,469
Donations	599	420
Other income	22,163	16,524
	-----	-----
	58,661	48,421
	-----	-----
6 Endowment income and interest receivable		
Income from specific endowments	1,892	2,176
Income from general endowments	2,405	1,649
Income from short term deposits	5,258	4,062
Other investment income	205	191
Pension Finance Income	2,781	3,774
	-----	-----
	12,541	11,852
	-----	-----

Notes to the Accounts - *continued*

EXPENDITURE

	Staff	Other Op Exp & Interest	Depreciation	2007 Total	2006 Total
	£000	£000	£000	£000	£000
7 Analysis of Expenditure by Activity					
Academic departments	93,016	20,843	1,055	114,914	100,920
Research grants and contracts	33,063	32,108	1,971	67,142	60,101
Academic services	8,301	7,668	83	16,052	13,161
General educational expenditure	4,915	9,482	-	14,397	9,863
Maintenance of premises	8,878	17,686	5,312	31,876	26,455
Administration and central services (1)	12,055	7,634	-	19,689	14,740
Students & staff facilities & amenities	1,912	2,161	615	4,688	4,405
Residences and catering (2)	4,810	6,687	520	12,017	11,601
Severance costs and unfunded pensions	190	-	-	190	91
Miscellaneous expenditure	527	5,706	1	6,234	5,596
Other services rendered	6,128	7,520	143	13,791	12,712
Additional Pension Costs per FRS 17	3,640	-	-	3,640	3,775
Exceptional write down of UL Library Services assets	-	-	1,524	1,524	-
	177,435	117,495	11,224	306,154	263,420

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

	2006-2007 £000	2005-2006 £000
PricewaterhouseCoopers LLP - Audit Fee - University	51	53
- Prior year	-	9
- Subsidiaries	16	13
- Taxation and consultancy services	146	45
KPMG LLP - Internal Audit	136	132
- Taxation, consultancy and accountancy services	116	94
Grant Thornton - Audit Fee - LSTM	48	-
- Taxation, consultancy and accountancy services	87	-

- (2) Residences and Catering 'Other Operating Expenses' includes interest payable of £321,148 (2006: £337,001) (see also note 25)
Administration and Central Services "Other Operating Expenses" includes interest payable of £1,262,766 (2006: nil) (see also note 25)
- (3) On 1 August 2007 the University of Liverpool gave notice to UL Library Services Limited of its intention to terminate the agreements between it and the Company relating to the provision by UL Library Services Limited of library and IT services to the University. The University has been the sole customer of UL Library Services Limited and on the basis of the termination of the above agreements the accounts for UL Library Services Limited have been prepared on a break up basis. Accordingly, the value of books held within the Company have been written down to nil value to reflect the termination of the rental agreement. This write down is reflected as the exceptional cost of £1,524k.

Notes to the Accounts - *continued*

EXPENDITURE - continued

	2006-2007 £000	2005-2006 £000
8 Taxation		
United Kingdom corporation tax (charge)credit at 30%	(178)	100
	—	—
	(178)	100
	—	—

	2006-2007 £000	2005-2006 £000
9 Staff costs		
Staff costs were:		
Salaries	143,858	129,733
Social security costs	12,260	10,856
Pension costs including FRS 17 adjustments (note 30)	21,317	20,691
	—	—
	177,435	161,280
	—	—
Emoluments of the Vice-Chancellor, including benefits in kind and pension contribution	274	252

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 £32,900 (2006: £30,240)

Compensation for loss of office paid to members of staff earning in excess of £50,000 per annum	116	200
---	-----	-----

Staff numbers by major category

	Number	Number
Academic/Clinical	2,532	2,436
Technical	451	487
Clerical	815	755
Other	454	465
	—	—
	4,252	4,143
	—	—

Notes to the Accounts - *continued*

EXPENDITURE - *continued*

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

	Number	Number
£70,000 - £79,999	110	48
£80,000 - £89,999	105	29
£90,000 - £99,999	38	17
£100,000 - £109,999	6	13
£110,000 - £119,999	6	13
£120,000 - £129,999	3	10
£130,000 - £139,999	5	7
£140,000 - £149,999	5	4
£150,000 - £159,999	5	6
£160,000 - £169,999	1	8
Over £170,000	5	15

Remuneration bandings for 2005-06 included clinical backpay processed during that financial year.

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 31.7.07 due to (from) the University
	£000	£000	£000
Professor J.D. Bone			
Trustee, Rosemary Young Person's Housing Trust	-	548	(4,021)
Director, Liverpool City of Learning	90	12	6
Director, Small Business Research Trust	4	-	-
Chairman, Graduate Prospects	1	11	-
Chairman, Capital of Culture Board	3	-	2
Director, Universities Choice Television	-	5	-
Mrs S.J. Rutherford			
Non Executive Director, Royal Liverpool Children's (NHS) Trust - Alder Hey	563	136	68
Mr R. Calvert			
Non-Executive Director, Royal Liverpool & Broadgreen University Hospitals NHS Trust	3,391	1,619	815
Ms J. Greensmith			
Chair, Royal Liverpool & Broadgreen University Hospitals NHS Trust	3,391	1,619	815
Mr D. C. McDonnell			
CEO, Grant Thornton International	-	135	-
Mr M.G.S. Yuille			
Director, UM Association (Special Risks) Ltd	3	52	-
Professor L. J. McAllister			
Director/Trustee, Welsh Football Trust	11	-	6
Mr P. Reid			
Regional Director, AstraZeneca	60	-	25

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 2006	210,423	32,965	5,757	30,618	279,763
LSTM cost at 1 August 2006	4,639	5,346	-	863	10,848
Additions in the year at cost	64,707	680	-	9,234	74,621
Transfer from investment properties	842	-	-	-	842
Less: Disposals during the year	-	(93)	-	(2)	(95)
Cost at 31 July 2007	280,611	38,898	5,757	40,713	365,979
Accumulated Depreciation					
At 1 August 2006	49,682	7,367	1,796	24,005	82,850
LSTM as at 1 August 2006	-	1,918	-	635	2,553
Charge for the year	4,777	975	234	3,714	9,700
Exceptional write off of books	-	-	-	1,524	1,524
Depreciation at 31 July 2007	54,459	10,260	2,030	29,878	96,627
Net Book Value					
31 July 2007	226,152	28,638	3,727	10,835	269,352
1 August 2006	160,741	25,598	3,961	6,613	196,913

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 £103m, and a cost of £138.6m 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 £796 million.

Included in the net book value of leasehold assets is a net sum of £11.8 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 2006	208,031	22,087	5,757	26,057	261,932
Additions in the year at cost	40,129	500	-	6,717	47,346
Transfer from investment properties	842	-	-	-	842
Less: Disposals during the year	-	-	-	-	-
Cost at 31 July 2007	249,002	22,587	5,757	32,774	310,120
Accumulated Depreciation					
At 1 August 2006	49,682	7,183	1,796	20,943	79,604
Charge for the year	4,777	679	234	3,116	8,806
Less: Eliminated on disposals	-	-	-	-	-
Depreciation at 31 July 2007	54,459	7,862	2,030	24,059	88,410
Net Book Value					
31 July 2007	194,543	14,725	3,727	8,715	221,710
1 August 2006	158,349	14,904	3,961	5,114	182,328

13 Capital commitments

	2007 £million	2006 £million
Authorised not yet contracted	15	38
Authorised and contracted	38	39
	<u>53</u>	<u>77</u>

Notes to the Accounts - *continued*

BALANCE SHEET - continued

14 Fixed asset investments

	Consolidated		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Market value of fixed asset investments	633	380	587	380
Properties	5,060	3,203	5,060	3,203
<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	13,678
	5,693	3,583	23,876	21,812

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 plc, ULIVE Group Limited, ULIVE Innovations Limited, ULIVE Enterprises Limited and Liverpool University Press 2004 Limited. All of these companies have been consolidated. The principal purpose of these companies is to support the activities of the University.

During the year, the University acquired the share capital of ULIVE plc, which was valued at £4.1m due to the valuation of intellectual properties within the ULIVE group. The consideration for this was £1, which was the transfer of the original share held in Ulive Group Limited. This resulted in goodwill of £4.1m on the acquisition of shares in ULIVE plc. However, the University has impaired the valuation of these shares and has written down the value of ULIVE plc to £1.

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 Limited	3.5	Palindromx Limited	11.3
TheRyte Limited	1.8	QTechnologies Limited	24.9
IVMD Inc	0.4	Connect Internet Solutions Limited	24.9
Liverpool Science Park Limited	24.5	Neocare Limited	13.5
Delphic Diagnostics Limited	4.4	Nanositec Limited	60.0
Provexis IBD Limited	25.0		

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

15 Endowment assets

	Consolidated		University	
	2007 £000	2006 £000	2007 £000	2006 £000
As at 1 August	119,300	107,705	119,300	107,705
Opening balance of LSTM	7,079	-	-	-
Purchases of investments	27,838	30,787	27,541	30,787
Disposals of investments	(21,024)	(21,674)	(20,771)	(21,674)
Appreciation on revaluation	2,162	3,023	1,894	3,023
Decrease in cash balances	(1,726)	(541)	(1,871)	(541)
	<hr/>	<hr/>	<hr/>	<hr/>
As at 31 July	133,629	119,300	126,093	119,300
	<hr/>	<hr/>	<hr/>	<hr/>

16 Endowments

	Consolidated			University		
	Specific £000	General £000	Total £000	Specific £000	General £000	Total £000
CAPITAL BALANCES						
At 1 August 2006	80,096	34,732	114,828	80,096	34,732	114,828
LSTM Balance at 1 August 2006	5,428	1,651	7,079	-	-	-
New endowments received in the year	612	12	624	542	12	554
Capital balances reclassified/ decapitalised	8,046	(9,348)	(1,302)	8,046	(9,348)	(1,302)
Capital balances utilised	(5,742)	-	(5,742)	(5,742)	-	(5,742)
Realised profits in year	6,054	2,650	8,704	5,965	2,650	8,615
Appreciation of endowment asset investments	<u>2,070</u>	<u>(32)</u>	<u>2,038</u>	<u>1,881</u>	<u>(109)</u>	<u>1,772</u>
At 31 July 2007	<u>96,564</u>	<u>29,665</u>	<u>126,229</u>	<u>90,788</u>	<u>27,937</u>	<u>118,725</u>
INCOME BALANCES						
At 1 August 2006	4,472	-	4,472	4,472	-	4,472
Reclassification/Decapitalisation	(1,697)	2,999	1,302	(1,697)	2,998	1,301
Income for year	1,892	2,405	4,297	1,786	2,343	4,129
Payments in the year	(809)	(1,862)	(2,671)	(734)	(1,800)	(2,534)
At 31 July 2007	<u>3,858</u>	<u>3,542</u>	<u>7,400</u>	<u>3,827</u>	<u>3,541</u>	<u>7,368</u>
Total	<u>100,422</u>	<u>33,207</u>	<u>133,629</u>	<u>94,615</u>	<u>31,478</u>	<u>126,093</u>

During the course of 2006/07, the University invested considerable time in reviewing endowments to identify any general funds which had specific terms and conditions attached to them. This resulted in a £6.3M transfer from general to specific endowments.

Notes to the Accounts - *continued*

BALANCE SHEET - continued

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
17 Debtors				
Amounts falling due within one year:				
Debtors - trade	38,118	25,157	28,859	25,166
- intergroup	-	-	7,770	8,462
Prepayments and accrued income	16,111	17,386	16,087	16,647
	54,229	42,543	52,716	50,275

Included within intergroup debtors is £747k due over one year (2006: £154k).

Included within prepayments and accrued income is £83k due over one year (2006: £nil).

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
18 Creditors: Amounts falling due within one year				
Bank Overdraft	148	359	-	352
Obligations under finance leases	249	234	249	234
Creditors - trade	52,623	36,317	31,963	35,815
- intergroup	-	-	6,552	7,798
Deferred Income	2,095	509	1,983	336
Social security and other taxation	6,290	5,521	5,515	5,338
Accrued charges	16,544	11,401	15,776	10,791
	77,949	54,341	62,038	60,664

	Consolidated		University	
	2007	2006	2007	2006
	£000	£000	£000	£000
19 Creditors: Amounts falling due after one year				
Other Loan	40,000	-	40,000	-
Obligations under finance leases				
due 2-5 years	1,212	1,125	1,212	1,125
due over 5 years	2,560	2,896	2,560	2,896
Other creditors	1,083	935	91	-
	44,855	4,956	43,863	4,021

During the year the University issued a private placement raising £40M, repayable in full in 2036 with an annual cost of 4.99%.

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

20 Deferred capital grants - university and consolidated

	Funding Council	Consolidated Other Grants & Benefactions	Total	Funding Council	University Other Grants & Benefactions	Total
	£000	£000	£000	£000	£000	£000
At 1 August 2006						
Buildings	83,963	21,198	105,161	83,963	21,198	105,161
Equipment	857	2,902	3,759	857	2,902	3,759
LSTM Buildings	2,165	4,321	6,486	-	-	-
LSTM Equipment		15	15	-	-	-
Total	86,985	28,436	115,421	84,820	24,100	108,920
Cash received/receivable						
Buildings	35,998	19,111	55,109	22,357	8,317	30,674
Equipment	-	1,592	1,592	-	1,592	1,592
Total	35,998	20,703	56,701	22,357	9,909	32,266
Released to income and expenditure						
Buildings	2,456	810	3,266	2,428	787	3,215
Equipment	286	1,802	2,088	286	1,791	2,077
Total	2,742	2,612	5,354	2,714	2,578	5,292
As 31 July 2007						
Buildings	119,670	43,820	163,490	103,892	28,728	132,620
Equipment	571	2,707	3,278	571	2,703	3,274
Total	120,241	46,527	166,768	104,463	31,431	135,894

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

	Consolidated		University	
	2007 £000	2006 £000	2007 £000	2006 £000
21 Revaluation reserve				
Balance 1 August	2,630	2,630	2,630	2,630
LSTM Revaluation Reserve at 1 August	376	-	-	-
Revaluations in the period	3,285	-	3,000	-
Reserve movement relating to transfer to fixed assets	(842)	-	(842)	-
Transfer to profit and loss reserve	(564)	-	(443)	-
Balance 31 July	<u>4,885</u>	<u>2,630</u>	<u>4,345</u>	<u>2,630</u>

As required by SSAP 19, Investment Properties were revalued in May & June 2007 at open market value on the basis of existing use by professionally qualified, external valuers CB Richard Ellis & Smiths Gore.

The valuations were undertaken in accordance with the Appraisal & Valuation Standards 5th Edition of the Royal Institute of Chartered Surveyors.

These revaluations have resulted in a Revaluation Reserve uplift of £3.0M. Additionally, the University has during the year reassessed its use of Investment Properties. This reassessment has resulted in transfers of assets between Investment Properties & Fixed Assets & a net Revaluation Reserve reduction of £1.3M

22 Income and expenditure reserves

	Consolidated		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Balance 1 August as previously stated	116,517	112,393	121,409	112,979
LSTM Reserves at 1 August	5,306			
(Deficit)/Surplus on income and expenditure account	(4,290)	14,265	(3,679)	18,571
Transfer from Revaluation Reserve	564		443	
Actuarial gain/(loss) on pension reserve	15,368	(10,141)	15,368	(10,141)
Balance 31 July 2007	<u>133,465</u>	<u>116,517</u>	<u>133,541</u>	<u>121,409</u>
Represented by:				
University Reserves	140,767	143,144	140,767	143,144
Subsidiaries	<u>(76)</u>	<u>(4,892)</u>	<u>-</u>	<u>-</u>
Income & Expenditure Excluding Pension Reserve	140,691	138,252	140,767	143,144
Pension Reserve	(7,226)	(21,735)	(7,226)	(21,735)
	<u>133,465</u>	<u>116,517</u>	<u>133,541</u>	<u>121,409</u>

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

23 Access Funds

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
Funding Council grants	558	863
Interest earned	10	11
	<u>568</u>	<u>874</u>
Disbursed to students	(571)	(831)
Audit fees	(1)	(1)
	<u>(4)</u>	<u>42</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.

24 Share Premium

During the year 1,240 ordinary shares in ULIVE Innovations Limited were issued externally for cash. The nominal value of these shares was £1,240 and the consideration received was £124,000.

During the year 1,260 preference shares in ULIVE Innovations Limited were issued for cash. The nominal value of these shares was £1,260 and the consideration received was £126,000

Notes to the Accounts - *continued*

CASH FLOW

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
25 Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities		
(Deficit)/Surplus on continuing operations after depreciation of assets	(2,518)	14,481
Pension costs less contributions payable	859	1
Depreciation (notes 1 & 11)	9,700	9,103
Deferred capital grants released to income (note 20)	(5,354)	(5,231)
Finance lease interest charge	321	337
Interest on £40m private placement	1,263	-
Gain on sale of fixed assets	-	(5,285)
Increase in stocks	(170)	(157)
Increase in debtors	(11,686)	(5,104)
Increase in creditors	23,952	10,089
Purchase of new investments	(152)	-
Investment income	(9,760)	(8,078)
Non cash movement from reserves	4,840	-
Net cash inflow from operating activities	11,295	10,156
26 Returns on Investments and Servicing of Finance		
Income from endowments	4,297	3,825
Other interest received	5,258	4,062
Other investment income	205	191
Interest on private placement	(1,263)	-
Interest element of finance lease rental payment	(321)	(337)
Net cash inflow from returns on investment and servicing of Finance	8,176	7,741
27 Capital Expenditure and Financial Investment		
Purchase of tangible fixed assets	(74,621)	(43,335)
Payments to acquire endowment assets	(27,838)	(30,787)
Receipt from sale of fixed assets	-	5,175
Write down of VAT on fixed asset cost	95	-
Receipt from sale of endowment assets	21,024	29,652
Deferred capital grants received	56,976	15,572
Endowments received	624	282
Net cash outflow from capital expenditure and financial investment	(23,740)	(23,441)

Notes to the Accounts – *continued*

CASH FLOW - continued

	Year ended 31 July 2007 £000	Year ended 31 July 2006 £000
28 Management of Liquid Resources		
Purchase of Investments	-	132
Movement in endowment assets	<u>1,726</u>	<u>696</u>
Net cash inflow from management of liquid resources	<u>1,726</u>	<u>828</u>

29 Financing

Debt due beyond a year:

Receipt of funds from private placement	40,000	-
Interest and capital element of finance lease rental payments	<u>(234)</u>	<u>(210)</u>
Net cash outflow from financing	<u>39,766</u>	<u>(210)</u>

30 Analysis of Changes in Net Funds

	At 1 August 2006 £000	Cashflows £000	Other changes £000	At 31 July 2007 £000
Cash in hand, and at bank	65,347	36,834	-	102,181
Endowment assets investments	5,506	(1,726)	-	3,780
Overdrafts	<u>(359)</u>	<u>211</u>	<u>-</u>	<u>(148)</u>
	70,494	35,319	-	105,813
Finance leases				
Debt due within 1 year	(234)	(15)	-	(249)
Debt due after 1 year	(4,021)	249	-	(3,772)
Private Placement	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>(40,000)</u>
	<u>66,239</u>	<u>(4,447)</u>	<u>-</u>	<u>61,792</u>

Notes to the Accounts - *continued*

31 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 2007 £000	Year ended 31 July 2006 £000
Contributions to Universities Superannuation Scheme	12,175	12,240
Contributions to University of Liverpool Pension Fund	7,641	7,306
Contributions to other schemes	1,501	1,079
Backdated pension contribution	-	66
	-----	-----
Total Pension Cost (note 9)	21,317	20,691
	-----	-----

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

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 valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions and the assumed rates of mortality. 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 (plus an additional allowance for increases in salaries due to age and promotion and a further amount of £800m of liabilities to reflect recent experience) 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 (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum.

Standard mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post-retirement mortality	PA92 (c = 2020) for all retired and non retired members

Notes to the Accounts - *continued*

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

Males	19.8 years
Females	22.8 years.

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%.

Since 31 March 2005 the financial security of the scheme has improved and the actuary has estimated that the funding level has increased from 77% as at 31 March 2005 to 91% at 31 March 2007. This improvement in the scheme's financial security is due primarily to the investment return on the scheme's assets since 31 March 2005 being higher than allowed for in the funding assumptions. On the FRS17 basis, the actuary estimates that the funding level at 31 March 2007 was above 109% and on a buy-out basis was approximately 84%.

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.

Surpluses or deficits which arise at future valuations may impact on universities' future contribution commitment. The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in Assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/Increase by £2.2 billion
Rate of pension increase	Increase/decrease by 0.5%	Increase/decrease by £1.7 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.5 billion
Rate of mortality	More prudent assumption (Mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8 billion

Notes to the Accounts - *continued*

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

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 £13,372k (2006 : £12,240k). 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 2006, 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 2007	At year-end 31 July 2006	At year-end 31 July 2005
	%	%	%
Rate of increase in salaries	5.30	5.00	4.75
Rate of increase in pensions in payment	3.30	3.00	2.75
Revaluation rate for deferred pensioners	3.30	3.00	2.75
Discount rate	5.70	5.00	5.00
Inflation assumption	3.30	3.00	2.75

Notes to the Accounts - *continued*

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

	Long-term rate of return expected at 31 July 2007 %	Fair Value at 31 July 2007 £000	Long-term rate of return expected at 31 July 2006 %	Fair Value at 31 July 2006 £000	Long-term rate of return expected at 31 July 2005 %	Fair Value at 31 July 2005 £000
Equities	8.00	148,979	8.00	136,699	8.00	132,760
Bonds	5.25	38,615	5.00	38,389	5.00	28,299
Cash	4.50	4,006	4.25	2,614	4.25	563
Property	8.00	20,330	8.00	18,909	8.00	16,585
		<hr/>		<hr/>		<hr/>
Total market value of assets		211,930		196,611		178,207
		<hr/>		<hr/>		<hr/>
			At year-end 31 July 2007 £000	At year-end 31 July 2006 £000		At year-end 31 July 2005 £000
Total market value of assets			211,930	196,611		178,207
Actuarial present value of scheme liabilities			(219,156)	(218,346)		(189,800)
			<hr/>	<hr/>		<hr/>
(Deficit)/surplus in the scheme			<u>(7,226)</u>	<u>(21,735)</u>		<u>(11,593)</u>

Analysis of the amount charged to income and expenditure account

	31 July 2007 £000	31 July 2006 £000
Employer service costs (net of employee contributions)	7,641	7,167
Past service costs	-	102
	<hr/>	<hr/>
Total operating charge	<u>7,641</u>	<u>7,269</u>

Analysis of pension finance income

	31 July 2007 £000	31 July 2006 £000
Expected return on pension scheme assets	14,372	13,301
Interest on pension liabilities	(11,591)	(9,527)
	<hr/>	<hr/>
Pension finance income	<u>2,781</u>	<u>3,774</u>

Notes to the Accounts - *continued*

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

	Year to 31 July 2007 £000	Year to 31 July 2006 £000
Actuarial return less expected return on assets	3,866	7,388
Experience gains and losses on liabilities	1,074	(3,859)
Changes in assumptions underlying the present value of liabilities	10,428	(13,670)
	<hr/>	<hr/>
Actuarial gain/(loss)	15,368	(10,141)
	<hr/>	<hr/>

Movement in illustrative balance sheet figures during the year:

	2006-2007 £000	2005-2006 £000
(Deficit)/Surplus in scheme at beginning of year	(21,735)	(11,593)
Movement in year:		
Current service cost	(7,641)	(7,167)
Contributions	4,001	3,494
Past service costs	-	(102)
Net interest/return on assets	2,781	3,774
Actuarial gain/(loss)	15,368	(10,141)
	<hr/>	<hr/>
(Deficit) in scheme at end of year	(7,226)	(21,735)
	<hr/>	<hr/>

The total pension contribution to ULPF was £4,001k (2006: £4,190k). The contribution rate payable by the University was 12.4% of pensionable salaries.

Notes to the Accounts - *continued*

Experience gains and losses:

	Year to 31 July 2007 £000	Year to 31 July 2006 £000	Year to 31 July 2005 £000	Year to 31 July 2004 £000	Year To 31 July 2003 £000
Difference between expected and actual return on scheme assets:					
amount (£000)	3,866	7,388	20,947	69	(2,425)
percentage of scheme assets	2%	4%	12%	0%	(2%)
Experience gains and losses on scheme liabilities:					
amount (£000)	1,074	(3,859)	2,754	10,038	1,600
percentage of scheme liabilities	0%	(2%)	1%	6%	1%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:					
amount (£000)	10,428	(13,670)	(17,155)	(10,897)	(26,075)
percentage of scheme liabilities	5%	(6%)	(9%)	(7%)	(17%)
Total amount which is recognised in the consolidated statement of total recognised gains and losses:					
amount (£000)	15,368	(10,141)	6,546	(790)	(26,900)
percentage of scheme liabilities	7%	(5%)	3%	0%	(18%)

Notes to the Accounts - *continued*

32 Effect on Prior Year Numbers if LSTM had been Previously Fully Consolidated

This note highlights how the previously reported 2005-06 figures would have been amended had the comparative numbers been restated to reflect full consolidation of LSTM in the year ending 31 July 2006.

The full consolidation of LSTM would have resulted in the following impact on the income and expenditure account for 2005-06.

	Year ended 31 July 2006 £000 If there had been full LSTM consolidation	Year ended 31 July 2006 £000 As reported in University's Consolidated Financial Statements (partial consolidation of LSTM)
Income		
Funding Council Grants	96,644	96,729
Academic fees and support grants	44,954	44,004
Research grants and contracts	71,622	71,610
Other operating income	50,675	48,421
Endowment income and interest receivable	12,107	11,852
	<hr/>	<hr/>
Total income	276,002	272,616
Expenditure		
Staff costs	164,588	161,280
Other operating expenses	91,988	92,700
Depreciation	9,248	9,103
Interest payable	337	337
	<hr/>	<hr/>
Total expenditure	266,161	263,420
	<hr/>	<hr/>
Surplus on continuing operations after depreciation of assets but before profit on sale of fixed assets and tax	9,841	9,196
Profit on the sale of Fixed Assets	<u>5,285</u>	<u>5,285</u>
Surplus on continuing operations after depreciation of assets and disposal of assets but before tax	15,126	14,481
Taxation credit	78	100
	<hr/>	<hr/>
Surplus on continuing operations after depreciation of assets and disposal of assets and tax	<u>15,204</u>	<u>14,581</u>
Transfer to accumulated income within specified endowments	(316)	(316)
	<hr/>	<hr/>
Surplus for the year retained within general reserves	<u>14,888</u>	<u>14,265</u>

Notes to the Accounts - *continued*

The full consolidation of LSTM would have resulted in the following impact on the balance sheet for as at 31 July 2006.

	Full Consolidation Of LSTM	Partial Consolidation of LSTM (as per the issued financial statements)
	2006 £000	2006 £000
Fixed Assets		
Tangible assets	205,208	196,913
Investments	<u>3,583</u>	<u>3,583</u>
	208,791	200,496
Endowment assets	126,379	119,300
Current assets		
Stocks and stores	751	712
Debtors and prepayments	48,191	42,543
Investments	2,777	-
Cash in hand, at bank and on deposit	<u>72,016</u>	<u>65,347</u>
	123,735	108,602
Creditors: Amounts falling due within one year	<u>(65,584)</u>	<u>(54,341)</u>
Net current assets	<u>58,151</u>	<u>54,261</u>
Total assets less current liabilities	393,321	374,057
Creditors: Amounts falling due after more than one year	<u>(4,956)</u>	<u>(4,956)</u>
Net assets excluding pension liability	388,365	369,101
Net pension liability	<u>(21,735)</u>	<u>(21,735)</u>
Net assets including pension liability	<u>366,630</u>	<u>347,366</u>
Represented by:		
Deferred capital grants	115,420	108,919
Endowments		
Specific	89,996	84,568
General	<u>36,383</u>	<u>34,732</u>
	126,379	119,300
Capital and Reserves		
Income and expenditure excluding pension reserve	143,560	138,252
Pension reserve	<u>(21,735)</u>	<u>(21,735)</u>
	121,825	116,517
Income and expenditure including pension reserve	121,825	116,517
Revaluation reserve	<u>3,006</u>	<u>2,630</u>
	<u>124,831</u>	<u>119,147</u>
Total funds	<u>366,630</u>	<u>347,366</u>