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

The Pro-Chancellor
Mark F. W. Blundell, DL, BA

The Vice-Chancellor
Professor Sir J. Drummond Bone, KBE, MA, FRSA, FRSE, LittD (to 31 July 2008)
Professor Sir Howard Newby, KB, CBE, BA, PhD, AcSS, (from 1 August 2008)

The Deputy Vice-Chancellor
Professor Graham J. Dockray, BSc, PhD, FMedSci, FRCP(Hon), FRS (to 31 July 2008)
Professor Jonathan R. Saunders BSc, PhD (from 1 August 2008)

The President
David McDonnell, CBE, DL, FCA, FRSA

The Treasurer
Professor James Keaton, BSc, LLD, FSDC, FBIM (Also Vice-President)

The Deputy Treasurer
John R. Flamson, BA, MCD, MRTPI, MIMgt (until 31 December 2007)

Pro-Vice-Chancellors
Professor John C. Belchem, BA, DPhil, FRHistS, FRSA
Professor John Caldwell, BPharm, PhD, DSc, CBiol, FIBiol, HonMRCP
Professor Jonathan R. Saunders, BSc, PhD

Chief Operating Officer
Ron Calvert, BSc, MBA

Director of Finance
Michael G.S. Yuille, BAcc, CA

Professional Advisers

Auditors	PricewaterhouseCoopers LLP
Bankers	Barclays Bank plc
Lawyers	Pinsent Masons

Financial Statements

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The Vice-Chancellor	
Professor Sir J. Drummond Bone, MA, FRSA, FRSE, LittD	1, 2, 3
The Deputy Vice-Chancellor	
Professor Graham J. Dockray, BSc, PhD, FMedSci, FRCP(Hon), FRS	1, 2
The President of Council	
David McDonnell, CBE, DL, FCA, FRSA	1, 2, 3
The Treasurer	
Professor James Keaton, BSc, LLD, FSDC, FBIM (Also Vice-President)	1, 3
The Deputy Treasurer	
John R. Flamson, BA, MCD, MRTPI, MIMgt (until 31December 2007)	1, 2
The Pro-Vice-Chancellors:	
Professor John C. Belchem, BA, DPhil, FRHists, FRSA	1
Professor John Caldwell, BPharm, PhD, DSc, CBiol, FIBiol, HonMRCP	1
Professor Jonathan R. Saunders, BSc, PhD	1
Appointed by the Court:	
David P. Linnell, OBE, BA (until 29 February 2008)	
Patrick M. Reid, BSc, PhD, MBA, FCIM, MIoD	2, 4
Christopher J. Baker, BA, MA (From 11 January 2008)	4
Appointed by the Council:	
Guy Lance, BSc, CEng, MICE	4
Nirmala Pillay, PhD	
Paula F. C. Ridley, CBE, JP, DL, MA, LLD (until 31 December 2007)	1
Joseph D. Duffey, PhD	
Judith Greensmith, DL, BCom	1, 2, 3
Senate Appointed/Elected Members:	
Professor David J. Bacon, PhD, DSc, FInstP, FIM, CEng, CPhys (until 31 October 2007)	
Professor Dinah L. Birch, BA, DPhil (until 31 October 2007)	
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	2
Professor Lu-Yun Lian, BSc, PhD, MBA (from 1 November 2007)	
Professor Charles Forsdick, BA, PhD (from 1 November 2007)	
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

Report of the Treasurer

I am pleased to present my annual report to accompany the Financial Statements of the University for the year ended 31 July 2008. The format of my report has changed following the introduction of the latest version of the Statement of Recommended Practice (SORP) for higher and further education institutions. The result is a fuller statement which should give the reader a more informative view of the University, its activities and how it pursues its charitable objectives, encapsulated in its mission statement, as

"The advancement of learning and the ennoblement of life"

My report is written at a time of considerable economic uncertainty. Massive change is taking place in the UK banking system, reflected in countries across the world. Economists and politicians are speaking openly of recession and inflation in the UK has reached a level not seen for some considerable time. All of these factors impact on the University and the executive is responding strongly to the management of the risks posed to the University. Some of these risks are referred to below, such as government funding levels, pay inflation and pension funding issues. The University's treasury policy has been amended in the light of the financial climate and I can report the University did not have any cash deposited in Icelandic banks at the time of their difficulties. Despite these economic pressures, and with a strong balance sheet I am confident that the University has sufficient resources to continue in operational existence for the foreseeable future and for this reason the accounts have been prepared on the going concern basis. Other significant accounting policies are set out in the notes to the financial statements where there is also more information on the figures contained in the accounts.

Overview of Activities

The University continues to deliver teaching and learning across a wide spread of disciplines and once again it achieved its intake targets for the year, met its HEFCE obligation for student numbers and strived hard in a competitive market to maintain the number of students attending the University from overseas.

Table 1 gives an overview of the student population.

Table 1

		2008	2007
Home & EU undergraduates	FT & PT	**12,721**	12,805
Home and EU postgraduates	FT & PT	**1,810**	1,760
Overseas undergraduates	FT & PT	**909**	1,028
Overseas postgraduates	FT & PT	**861**	884

The University, along with others, has a target to meet in respect of access to higher education by students from disadvantaged backgrounds. The University is proud of its record in widening participation in higher education, and table 2 shows its performance over the last three years for which data is available.

Table 2 of Widening Participation Indicators – 3 Years

Widening Participation Indicators	University of Liverpool			Benchmark	English Average	Russell Group English Average
	2006-07	2005-06	2004-05	2006-07	2006/07	2006/07
	%	%	%	%	%	%
Percentage of new young undergraduates from state schools	84.8	86.4	84.7	82.1	87.2	71
Percentage of new young undergraduates from NS-SEC classes 4-7	24.7	23.6	23.5	25.3	29.8	18.5
Percentage of new young undergraduates from low participation neighbourhoods	8.6	12.6	13.6	7.1	9.6	5.3

source: HESA Performance Indicator Table T1a

Report of the Treasurer

In addition to its role in the teaching and learning of students, undergraduate and postgraduate, both from the UK, the EU and world-wide, the University is involved in a variety of research activities. The University has been able to attract increasing levels of grant not only from the Research Councils, but also from other public sector bodies, charities, and companies. The University is a member of the Russell Group, the 20 most prestigious research intensive universities in the UK. Research activity continues to grow as shown in table 3.

Table 3 of Research income - 3 years

	2007-2008	2006-2007	2005-2006
	£000	£000	£000
Income			
Research Councils	**26,381**	24,855	22,353
Charities	**16,066**	14,938	13,575
Industry and Commerce	**4,690**	3,657	3,909
Governmental (UK & EU)	**27,395**	22,815	23,907
Other	**18,518**	12,701	7,866
Total income	**93,050**	78,966	71,610

The University is also involved in a number of associated commercial activities. Some of these are linked to the delivery of our academic programmes, such as the Animal Hospitals at Leahurst while others are related to the exploitation of University discoveries which are carried out in partnership with Ulive plc, a subsidiary of the University which has, in July 2008, attracted investment of £2.5M. This investment from the Liverpool Seed Fund will support the commercialisation of new opportunities arising from University intellectual property.

The University continues to develop its partnership with Xi'an Jiaotong University (XJTU) and with Laureate Education Inc, an international company with a network of worldwide universities which works with the University in the delivery of online master's degree programs to working professionals. The new university at Suzhou, Xi'an Jiaotong Liverpool University, 90km west of Shanghai now has 1,483 students, of whom 93 have transferred and are currently studying in Liverpool, and academic links with staff and student exchanges have been established.

As a major employer in the City of Liverpool, and as the largest higher education institution in the Merseyside the University makes a significant contribution to the life of the region and particularly so in the year of the City being the European Capital of Culture. The new Victoria Museum and Gallery, opened in June 2008, symbolises the University's commitment to the City. The Continuing Education and Professional Development (CEPD) arm of the University arranges over 400 part-time courses each year for members of the public. In addition, The University continues to work with the "Aimhigher" partnership in delivering programmes to raise the aspirations of young people in the Merseyside region to apply for entry to higher education.

Key Performance Indicators

It is considered to be best practice to include within this report a discussion of the key performance indicators selected by the organization to monitor its activities and measure its success. The University is in the final stages of a project to develop the most appropriate performance indicators for its operations. These indicators will cover health of the principal activities of the University in a comprehensive manner and I expect to be able to report more fully on these with the future year's financial statements.

Report of the Treasurer

People

At the end of the financial and academic year the Vice-Chancellor, Professor Sir Drummond Bone, retired from the University after 6 successful years of leadership. His successor on 1 August 2008, Professor Sir Howard Newby has already had a distinguished career in higher education, and is currently leading the development of a new Strategic Plan as the University seeks to respond the considerable external challenges that have arisen in the global economies and which are affecting us all. The Deputy Vice-Chancellor, Professor Graham Dockray retired from office at the same time and I take this opportunity to express my thanks for their unstinting contribution to the development of this University.

In common with many other HEIs the University has been implementing the "Pay Modernisation" agenda, involving a role evaluation process and a new grading structure. Exceptionally within the sector the University has extended the agenda so as to simultaneously implement a Professional Development and Review Scheme which will support the drive for business excellence and performance management. Due to the complexity, this project has been under way for some years now and has finally come to fruition in recent months, which has resulted in substantial additional non-recurrent costs for pay rises and back pay for those staff whose grade was redefined. The financial consequences have been shown in the Accounts as an exceptional item and further detail is contained in the relevant note to the financial statements.

Staff costs, excluding the exceptional increase, have grown by 12% in 2007-08, and constitute just over 58% of gross expenditure (2006-07: 58%). There has been an increase in overall staff numbers as the University has placed itself to maximize its position in the Research Assessment Exercise (RAE) 2008. The final instalment of the three-year pay agreement negotiated in 2006 was linked to RPI at September 2008 and, at 5%, this has led to a further increase in staff costs in 2008-09.

The disclosure of information about the University pension schemes (Note 28) reflects the turbulence in the financial markets. The two pension schemes, both final salary schemes, represent a valuable benefit for employees, essential for the recruitment and reward of high quality staff. The increase in the deficit on the University of Liverpool Pension Scheme (using FRS17 definitions) of £15.9M, is a serious matter for the University, albeit with no immediate cash effect. A large part of the increase in the deficit is due to the arrears element of the pay modernisation settlement referred to above. Pension fund management is a long term issue and while markets are in their current state the regulatory environment may give rise to short term cost volatility. The USS scheme has already indicated the cost of provision of benefits will have to rise in 2009 and the same is almost certain for the University scheme for non-academic staff. Until markets recover, the short term consequences around pension funds will put increased cost pressure upon the University.

Capital Investment

A number of new facilities have been completed during the year under the current investment programme. In July 2008 the University completed the redevelopment of its iconic red-brick Victoria Building to provide a Museum and Art Gallery to the City of Liverpool in its year as European Capital of Culture. Following an £8.6M restoration, the University has transformed its first major building, originally opened in 1892, into a home for the art and heritage collections which it has acquired during its history. The Gallery was the only new museum to open in Liverpool in 2008 and has been a major contribution to the Capital of Culture.

In a £30m project due to complete in the autumn of 2008 the University has invested in the major refurbishment of its engineering research laboratories and in building new teaching facilities for future generations of students. The Sydney Jones Library has been extended and improved, involving the conversion of parts of the vacated Senate House building, providing a new entrance with a reception, issue desk and a walk-in short loan library on the ground floor. The Harold Cohen library is also benefitting from refurbishment and is another part of the University's drive to improve the overall student experience at Liverpool. Work is continuing on a number of other projects, including a more efficient combined heat and power plant to meet the needs of the growing campus and the first major redevelopment of our student residence portfolio.

Report of the Treasurer

The Liverpool School of Tropical Medicine (LSTM)

The University values its close working relationship with LSTM, whilst recognizing its independent legal status. However, teaching programmes are validated by the University, there are many collaborative research projects and HEFCE grant for LSTM is received by the University and passed to LSTM. The University remains accountable to HEFCE for this funding. In addition, there are long-standing shared services in place such as payroll, pension funds and computing services. Certain of LSTM's premises are held on the University's asset register. As a result, it was agreed in 2006-07 that rather than the partial consolidation as in prior years, LSTM's accounts should be fully consolidated within the University group accounts, and this has continued in 2007 - 08.

Financial Performance

Through 2007-08 the University continued to pursue its strategy of investment in advance of the research assessment exercise with further appointments of key staff, together with ongoing investment in facilities and infrastructure. As a result, the University Consolidated Income & Expenditure account showed a deficit of £7.3M, the majority of which arose from the backdated, non-recurrent element of the pay modernisation settlement, in 2007-08 compared to a deficit of £4.3M in 2006-07. The University Council approved financial forecasts last November which showed a return to a surplus position on operating activities in the current financial year and the financial strategy of the University was reviewed in the summer and the three key elements of operating at a surplus, maintaining a positive cash flow from operations and retaining sufficient cash in working capital were reaffirmed. These will form important parameters for the strategic plan currently under preparation and dealing with the increased cost pressures facing the University.

The University's financial position remains very strong, with total consolidated assets in excess of £409M. Tangible fixed assets increased by some £40M while cash balances reduced by some £14M. The long term borrowing secured in 2006-07 and 2007-08 at advantageous rates has provided secure liquidity for ongoing operations. The University has been able to take advantage of money market conditions and has earned returns well in excess of the borrowing costs

With the recent and continuing volatility in global finance markets, the valuations of investment and endowment assets have fluctuated during the year, closing some £20M below the 2007 valuation. The assets of the University's pension fund have also been affected by the downturn in the markets, a contributory factor to the deficit of £23M (using FRS17 definitions), compared with £7M in 2007.

Higher Education Funding

Public funding for teaching and research has kept pace with inflation in recent years however there is some uncertainty in the current financial climate that this may not continue into 2009-10 and beyond. It has been an important part of the University's strategy to maximize its position for the RAE, the outcome of which will be announced in December and which will set a baseline for research funding for the years ahead. While much has been done to improve the University's research performance, as can be seen from the total income, there can be no guarantee this will result in additional recurrent funding from government.

The government has not yet made a decision on the lifting of the cap on fees charged to undergraduate students. The outcome of this will have a significant effect upon the future resources available to the University to deliver its mission. A review is due to be established in 2009. The University takes pride in taking students from all sections of the community supported by its generous bursary scheme, for both students from disadvantaged backgrounds and for the most highly talented students. The continuing support of the UK government for higher education is assured; the debate is on the form that this will take, and the University will play its part in the coming debate.

Report of the Treasurer

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. During 2007-08 the average period from invoice date to payment was 42 days (2007: 34 days)

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, 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 maximize 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.

Reserves Policy

The University recognises its obligation as a charity to expend the resources provided to it for charitable purposes and its reserves are retained for a variety of purposes. A significant proportion is represented by endowments which are retained and used in accordance with the wishes of the benefactors. The University has also built up its own reserve balances over a number of years to provide a source of funding for future activities. Further reserves are retained to provide working capital to support the University's complex operations and to invest in land, buildings and equipment to develop its activities.

PROFESSOR JAMES KEATON BSc LLD FSDC FBIM
Treasurer

Corporate Governance Statement

The University of Liverpool is a corporate body established by Royal Charter dated 1903. Under the corporate objectives set out in the Charter, the University remains committed to the 'advancement of learning and ennoblement of life'.

The University is governed by the Council which comprises lay and academic members appointed under the Statutes of the University, the majority of whom are non-executive (see pages 3 for members). The Council has the responsibility for the ongoing strategic direction of the University, approval of major developments and the oversight of the day to day operations of its business and of its subsidiary companies. It 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 committees is shown on pages 3.

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. It also receives and considers 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. The Committee is chaired by the Pro-Chancellor and whilst senior executives and other lay officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee meets with the Internal and External Auditors on their own for independent discussions.

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 in the Financial Memorandum with the Higher Education Funding Council for England.

The Vice-Chancellor is supported in his role by a Deputy Vice-Chancellor and three Pro-Vice-Chancellors. They lead the academic management of the University which is organised into faculties and academic departments. The professional services are managed by the Chief Operating Officer and the Director of Finance.

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.

Corporate Governance Statement

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 the Health & Safety Committee setting out, where necessary, recommendations for change and improvement. 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.

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 (July 2007), 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 term 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.

Auditor’s Report

Independent auditors’ report to the Council of the University of Liverpool

We have audited the financial statements’ of the University of Liverpool for the year ended 31 July 2008 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 accounting policies set out in therein.

Respective responsibilities of the or 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 institution in accordance with the Charters and Statutes of the institution. 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 (HEFCE). We also report to you if, in our opinion, the institution 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 within it. 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.

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 judgments 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 2008, and of the deficit of income over expenditure, recognised gains and losses and cashflows for the Group for the year then ended;

ii. the financial statements 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;

iii. in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received; and

Auditor’s Report

iv. in all material respects, income has been applied in accordance with the institution's statutes and where appropriate in accordance with the financial memorandum (2006/24) with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool

28 November 2008

The maintenance and integrity of the University of Liverpool website is the responsibility of the or 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.

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 2008

	Note	2008 £000	2007 £000
Income			
Funding Council Grants	2	**106,912**	100,203
Academic fees and support grants	3	**60,285**	53,265
Research grants and contracts	4	**93,050**	78,966
Other operating income	5	**66,569**	58,661
Endowment income and interest receivable	6	**12,870**	12,541
Total income		**339,686**	**303,636**
Expenditure			
Staff costs	9	**199,240**	177,435
Other operating expenses	7	**123,594**	115,911
Write down of assets within University of Liverpool Library Services	7	-	1,524
Depreciation	7	**13,301**	9,700
Interest payable	7	**2,721**	1,584
Total expenditure		**338,856**	306,154
Surplus/(Deficit) after depreciation of tangible fixed assets & before tax		**830**	(2,518)
Taxation (charge)/credit	8	**(176)**	(178)
Surplus/(Deficit) after depreciation of tangible fixed assets & tax		**654**	(2,696)
Exceptional payroll costs	9	**(6,768)**	
Profit on the sale of Fixed Assets		**370**	
Deficit on continuing operations after depreciation of tangible fixed assets and tax		**(5,744)**	(2,696)
Surplus endowment income for the year transferred to accumulated income in endowment funds		**(1,551)**	**(1,594)**
Deficit for the year retained within general reserves		**(7,295)**	**(4,290)**

Consolidated and University Balance Sheets

as at 31 July 2008

	Note	Consolidated 2008 £000	Consolidated 2007 as restated £000	University 2008 £000	University 2007 as restated £000
Fixed Assets					
Intangible assets		**27**		**27**	
Tangible assets	11,12	**310,115**	269,352	**268,443**	221,710
Investments	14	**6,674**	5,693	**26,311**	23,876
		316,816	275,045	**294,781**	245,586
Endowment assets	15	**113,263**	132,057	**106,688**	124,521
Current assets					
Stock		**1,084**	882	**581**	526
Debtors	17	**55,190**	54,229	**50,432**	52,716
Investments		**3,468**	3,061	**-**	
Cash at bank and in hand		**87,753**	102,181	**71,325**	88,079
		147,495	160,353	**122,338**	141,321
Less: Creditors - amounts falling due within one year	18	**(84,343)**	(77,949)	**(82,010)**	(62,038)
Net current assets		**63,152**	82,404	**40,328**	79,283
Total assets less current liabilities		**493,231**	489,506	**441,797**	449,390
Less: Creditors - amounts falling due after more than one year	19	**(61,016)**	(44,855)	**(44,760)**	(43,863)
Net assets excluding pension liability		**432,215**	444,651	**397,037**	405,527
Net pension liability	28	**(23,100)**	(7,226)	**(23,100)**	(7,226)
Net assets including pension liability		**409,115**	437,425	**373,937**	398,301
Represented by:					
Deferred capital grants	20	**177,505**	165,971	**153,649**	135,097
Endowments					
Expendable	16	**14,644**	31,635	**14,644**	29,906
Permanent	16	**98,619**	100,422	**92,044**	94,615
		113,263	132,057	**106,688**	124,521
Capital and Reserves					
Share Capital Account		**1,905**			
Share Premium Account	24	**250**	250		
Income and expenditure excluding pension reserve	22	**135,033**	141,488	**132,337**	141,564
Pension reserve	28	**(23,100)**	(7,226)	**(23,100)**	(7,226)
Income and expenditure including pension reserve		**111,933**	134,262	**109,237**	134,338
Revaluation reserve	21	**4,259**	4,885	**4,363**	4,345
		116,192	139,147	**113,600**	138,683
Total funds		**409,115**	437,425	**373,937**	398,301

The financial statements on pages 14 to 42 were approved by the Council on 26th November 2008 and signed on its behalf by:

Professor James Keaton Treasurer	Professor Sir Howard Newby Vice-Chancellor	Michael G.S. Yuille Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2008

	Notes	2008	2007
		£000	£000
Cash flow from operating activities	25	**7,042**	11,295
Returns on investments and servicing of finance			
Income from Endowments		**4,353**	4,297
Other interest received		**5,129**	5,258
Other Investment Income		**249**	205
Interest Paid on Loans		**(2,288)**	(1,263)
Other interest payable		**(135)**	-
Interest Element of Finance Lease Payments		**(298)**	(321)
		7,010	8,176
Taxation	8	**(176)**	(178)
Capital expenditure and financial investment			
Payments to acquire fixed assets		**(54,262)**	(74,621)
Endowment assets acquired and received		**(25,316)**	(27,838)
Receipts from sale of fixed assets		**198**	-
Write down of VAT on fixed asset cost		**-**	95
Receipts from sale of endowment assets		**25,901**	21,024
Deferred capital grants received		**9,547**	56,976
Endowments received		**1,953**	624
		(41,979)	(23,740)
Net Cash Outflow before use of liquid resources and financing		**(28,103)**	(4,447)
Management of liquid resources			
Cash transferred (to)/from term deposits		**(1,673)**	1,726
Financing			
Loans drawn during the year		**15,600**	40,000
Interest and capital element of finance lease repayments		**(246)**	(234)
(Decrease)/Increase in cash in the period		**(14,422)**	37,045

Reconciliation of net cash flow to movement in net funds/(debt)

	2008	2007
(Decrease)/Increase in cash in the period	**(14,422)**	37,045
Cash inflow/(outflow) from liquid resources	**1,673**	(1,726)
Change in net debt resulting from cash flows	**(15,354)**	(39,766)
Movement in net funds in period	**(28,103)**	(4,447)
Net funds at 1 August	**61,792**	66,239
Net funds at 31 July	**33,689**	61,792

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2008

	Note	2008	2007
			As restated
		£000	£000
Deficit on continuing operations after depreciation of tangible fixed assets and tax		**(5,744)**	(2,696)
Other movements direct from reserves		**(689)**	4,276
Actuarial (Loss)/Gain in respect of pension scheme		**(15,099)**	15,368
Movement in income and expenditure reserve (note 22)		**(21,532)**	16,948
(Depreciation)/Appreciation of Endowment Asset Investments		**(20,344)**	6,595
New endowments		**1,953**	8,110
(Loss)/Gain on revaluation of investment properties		**(626)**	2,721
Transfer from investment properties to fixed assets		**-**	(842)
Transfer from endowments relating to prior year adjustment	1	**-**	(1,975)
Total recognised (losses)/gains relating to the year		**(40,549)**	31,557
Reconciliation			
Opening reserves and endowments		**270,004**	238,447
Total recognised gains for the year		**(40,549)**	31,557
Closing reserves and endowments		**229,455**	270,004

Notes to the Accounts

1. Statement of Principal Accounting Policies

a. Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards and in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

b. Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertakings (as detailed in note 14) for the financial year to 31 July 2008. 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, on the basis of dominant influence.

c. Intra-group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated. Balances between the Institution and its associates and joint ventures are not eliminated; unsettled normal trading transactions are included as current assets or liabilities. Any gains or losses are included in the carrying amount of assets of either entity; the part relating to the Group's share is eliminated.

d. Recognition of income

Funding council block grants are accounted for in the period to which they relate.

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

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

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

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

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

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

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

e. Agency arrangements

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

f. Accounting for research and development

Expenditure on pure and applied research is treated as a part of the continuing activities of the University.

g. 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.

h. Land and buildings

Land and buildings are stated at cost. Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

i. Repairs and maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred.

j. Equipment

Equipment costing less than £5,000 per individual item is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost.

k. Depreciation

Freehold land is not depreciated.

Freehold buildings are depreciated over their expected useful economic life to the University of between 30 and 50 years on the amount at which the tangible fixed asset is included in the balance sheet. Where material, a depreciable asset's anticipated useful economic life is reviewed annually and the accumulated and future depreciation adjusted in accordance with FRS 15.

Leasehold land and buildings are amortised over the life of the lease up to a maximum of 50 years. No depreciation is charged on assets in the course of construction.

Equipment funded by research grants is depreciated over the initial life of the grant, otherwise, over 4 years.

l. Acquisition with the aid of specific grants

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated. The related grants are credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

m. 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.

n. Heritage Assets

The University owns a considerable collection of works of art and museum objects, which were donated or bequeathed to the University during the last 120 years, and nearly all, prior to 1970. The vast majority of these items are not included in the financial statements. The University considers that in many cases it would not be practical to obtain a meaningful valuation. Very few heritage assets could be sold by the University due to the restrictive nature of the acquisition. Further information is provided in note 13. The cost of conservation and restoration of the heritage collection is reported in the Income and Expenditure Account for the year it is incurred.

o. 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.

p. Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, cash at bank, and deposits repayable on demand. Deposits are repayable on demand if they are available within 24 hours without penalty. No other investments, however liquid, are included as cash. Liquid resources comprise assets held as readily disposable store of value. They include term deposits, government securities and loan stock held as part of the Institution's treasury management activities. They exclude any such assets held as endowment asset investments.

q. Investments

Listed investments held as fixed assets or endowment assets 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 as at 31 July 2007 by external professionally qualified valuers.

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

Increases in market 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.

Investment properties are held in the balance sheet at market value. Investment properties were revalued at 31 July 2007 by externally professionally qualified valuers.

r. 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. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future have occurred at the balance sheet date. Timing differences are differences between the Group's taxable profits and its results as stated in the financial statements. Deferred tax is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. Corporation tax payable is provided on taxable profits at the current rate.

s. Accounting for charitable donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

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

1. Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University [SORP para 144]
2. Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income [SORP para 143, 147]
3. Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective [SORP para 144]

Total return is the whole of the investment return received by the University on the permanent endowment funds regardless of how it has arisen. The total return, less any part of the return which has previously been applied for the purposes of the University, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

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

Gifts in kind are included in ‘other income’ or ‘deferred capital grants’ as appropriate using a reasonable estimate of their gross value or the amount actually realised.

t. Accounting for Retirement Benefits

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

u. Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Notes to the Accounts

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

v. Endowment assets (Prior Year Adjustment)

In accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (July 2007), the prior year adjustment relates to the restatement of endowments to treat correctly income donated in previous years.

2 Funding Council Grants

	2008	2007
	£000	£000
Recurrent grant	**96,756**	94,177
Specific grants	**7,139**	3,284
Deferred capital grant released in year (see note 20)	**3,017**	2,742
	106,912	100,203

3 Academic Fees and Support Grants

	2008	2007
	£000	£000
Full time Home and EU students	**38,269**	32,734
Full time Overseas students	**17,300**	18,304
Part time students	**2,196**	240
Special courses	**2,465**	1,760
Research Training Support grants	**55**	227
	60,285	53,265

4 Research Grants and Contracts

	2008	2007
	£000	£000
Research Councils	**26,381**	24,855
Charities	**16,066**	14,938
Industry and Commerce	**4,690**	3,657
Governmental (UK & EU)	**27,395**	22,815
Other	**18,518**	12,701
Total income	**93,050**	78,966

Notes to the Accounts

5 Other Operating Income

	2008	2007
	£000	£000
Residences and catering	**10,334**	12,151
Health Authorities	**7,934**	8,567
Other services	**18,758**	15,181
Donations	**3,277**	599
Released from deferred capital grants	**2,484**	2,612
Other income	**23,782**	19,551
	66,569	58,661

6 Endowment Income and Interest Receivable

	2008	2007 As Restated
	£000	£000
Income from expendable endowments	**688**	1,892
Income from permanent endowments	**3,665**	2,405
Income from short term deposits	**5,129**	5,258
Other investment income	**249**	205
Net return on Pension Scheme	**3,139**	2,781
	12,870	12,541

7 Analysis of Expenditure by Activity

	Staff	Other Operating Expenses	Interest	Depreciation	**2008**	2007
	£000	£000	£000	£000	**£000**	£000
Academic departments	104,269	20,538	137	2,749	**127,693**	114,914
Research grants and contracts	36,145	42,241	-	2,525	**80,911**	67,142
Academic services	13,418	9,105	-	309	**22,832**	16,052
General educational expenditure	3,825	10,129	-	1	**13,955**	14,397
Maintenance of premises	10,071	16,004	-	7,235	**33,310**	31,876
Administration and central services (1)	12,539	7,073	2,286	105	**22,003**	19,689
Students & staff facilities & amenities	321	3,165	-	67	**3,553**	4,688
Residences and catering (2)	4,057	5,268	298	249	**9,872**	12,017
Severance costs and unfunded pensions	324	396	-	-	**720**	190
Miscellaneous expenditure	5	138	-	61	**204**	6,234
Other services rendered	10,352	9,537	-	-	**19,889**	13,791
Additional Pension Costs per FRS 17	3,914	-	-	-	**3,914**	3,640
Exceptional write down of UL Library Services assets	-	-	-	-	**-**	1,524
	199,240	123,594	2,721	13,301	**338,856**	306,154

Other Operating Expenses includes:

			2008 £000	2007 £000
PricewaterhouseCoopers LLP				
	External Audit Fee	University	**54**	51
		University Prior year	**16**	-
		Subsidiaries	**14**	16
	Taxation and consultancy services		**55**	146
KPMG LLP				
	Internal Audit		**140**	136
	Taxation, consultancy and accountancy services		**181**	116
Grant Thornton LLP				
	Audit Fee	LSTM	**37**	24
	Taxation, consultancy and accountancy services		**0**	87
Bentley Jennison				
	Internal Audit	LSTM	**24**	27

8 Taxation

	2008 £000	2007 £000
United Kingdom corporation tax (charge) credit at 30%		
Deferred Tax - origination and reversal of timing differences	**(119)**	(178)
Other tax charges	**(57)**	-
	(176)	(178)

9 Staff Costs

	2008 £000	2007 £000
Staff costs were:		
Salaries	**161,057**	143,858
Social security costs	**14,048**	12,260
Pension costs including FRS 17 adjustments (note 30)	**24,135**	21,317
	199,240	177,435

Emoluments of the Vice-Chancellor, including benefits in kind and pension contribution for 2008 were £320K (2007: £274K)

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 £35K (2007: £33K).

Compensation for loss of office paid to members of staff earning in excess of £50,000 per annum for 2008 were £173K (2007: £116K)

Notes to the Accounts

Staff Numbers by major category:

	2008	2007
	Full Time	Full Time
	Equivalent	Equivalent
Academic/Clinical	**2,798**	2,707
Technical	**649**	470
Clerical	**849**	858
Other	**344**	463
	4,640	4,498

As a result of the Support Staff Pay Assimilation, several categories of staff who were formerly classified as 'Other' have been transferred to "Technical" scales.

As part of the Pay Modernisation Agenda agreed on a national basis, the University made a commitment that revised pay arrangements associated with a new role analysis system would be implemented during the period 2005-2008. Following agreements with the staff and unions, the new arrangements were finally implemented in September 2007. The conclusion of this agreement has resulted in back pay paid of £3.9M and £4.8M accrued across all grades of staff. The University had charged £1.9m of these pay costs in prior years, leaving the resulting £6.8M charge in year, which is shown as an exceptional item on the face of the income and expenditure account.

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
£100,000 - £109,999	**13**	7
£110,000 - £119,999	**13**	8
£120,000 - £129,999	**5**	4
£130,000 - £139,999	**13**	6
£140,000 - £149,999	**7**	5
£150,000 - £159,999	**10**	5
£160,000 - £169,999	**6**	1
£170,000 - £179,999	**6**	5
£180,000 - £189,999	**8**	0
£190,000 - £199,999	**2**	0
£200,000 – £249,999	**4**	0
£250,000 - £259,999	**1**	
	88	41

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 31.7.08 due to (from) the University
	£000	£000	£000
The Rt Hon Lord Owen CH FRCP			
Non Executive Director, Abbott Laboratories Inc	-	21	-
Professor J.D. Bone			
Trustee, Rosemary Young Person's Housing Trust	-	547	(3,772)
Director, Liverpool City of Learning	40	13	-
Director, Small Business Research Trust	6	-	-
Chairman, Graduate Prospects	2	11	(1)
Chairman, Capital of Culture Board	13	-	-
Director, Universities Choice Television	-	5	-
Universities UK, Main Board	1	42	(39)
Higher Education Careers Service Unit	-	1	-
Leadership Foundation	-	57	(9)
Mrs S.J. Rutherford			
Non Executive Director, Royal Liverpool Children's (NHS) Trust – Alder Hey	831	79	466
Mr R. Calvert			
Governor at North Liverpool Academy	2	-	2
Ms J. Greensmith			
Chair, Royal Liverpool & Broadgreen University Hospitals NHS Trust	3,722	2,040	972
Mr D. C. McDonnell			
CEW, Grant Thornton International	5	37	(33)
The Liverpool Culture Company Ltd	13	-	-
NMGM Enterprises Ltd	-	5	-
Chairman of Trustees, National Museums Liverpool	68	93	-
Director, USS Ltd	-	-	-
Mr M.G.S. Yuille			
Director, UM Association (Special Risks) Ltd	9	131	-
Chairman, EUA Working Group	-	2	-
Mentor, Leadership Foundation	-	57	(9)
Mr J. Flamson			
Board Director, Liverpool Philharmonic Hall Events Ltd	-	47	-
Mr C.J. Baker			
Chairman, Aintree University Hospital NHS Foundation Trust	-	189	(6)
Director, Training and Development Agency for Schools	1	-	1
Dr. N. Pillay			
Senior Lecturer, LMJU	231	471	73
Professor D. Birch			
Honorary Professor, University of Lancaster	936	1,206	(233)
Mr J. Duffey			
Senior Vice President, Laureate International Universities, Laureate Education	23	41	(40)

11 Consolidated Tangible Assets

		Land and Buildings			Equipment	Total
		Freehold	Leasehold	Finance Lease		
		£000	£000	£000	£000	£000
Cost at 1 August 2007		**280,611**	**38,898**	**5,757**	**40,713**	**365,979**
Additions in the year at cost		41,515	2,928	-	9,819	54,262
Less: Disposals during the year		(319)	(18)	-	(3,466)	(3,803)
Cost at 31 July 2008		**321,807**	**41,808**	**5,757**	**47,066**	**416,438**
Accumulated Depreciation						
At 1 August 2007		**54,459**	**10,260**	**2,030**	**29,878**	**96,627**
Charge for the year		5,908	1,040	249	6,104	13,301
Less: Eliminated on disposals		(122)	(18)	-	(3,465)	(3,605)
Depreciation at 31 July 2008		**60,245**	**11,282**	**2,279**	**32,517**	**106,323**
Net Book Value	**31 July 2008**	**261,562**	**30,526**	**3,478**	**14,549**	**310,115**
	1 August 2007	**226,152**	**28,638**	**3,727**	**10,835**	**269,352**

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 £115m, and a cost of £153.8m 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 £808 million.

Included in the net book value of leasehold assets is a net sum of £11.5 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.

12 University Tangible Fixed Assets

		Land and Buildings			Equipment	Total
		Freehold	Leasehold	Finance Lease		
		£000	**£000**	**£000**	**£000**	**£000**
Cost at 1 August 2007		**249,002**	**22,587**	**5,757**	**32,774**	**310,120**
Additions in the year at cost		**36,761**	**2,841**	**-**	**8,098**	**47,700**
Transfer from Group Companies		**11,630**	**-**	**-**	**-**	**11,630**
Less: Disposals during the year		**(319)**	**-**	**-**	**-**	**(319)**
Cost at 31 July 2008		**297,074**	**25,428**	**5,757**	**40,872**	**369,131**
Accumulated Depreciation						
At 1 August 2007		**54,459**	**7,862**	**2,030**	**24,059**	**88,410**
Charge for the year		**5,639**	**724**	**249**	**5,788**	**12,400**
Less: Eliminated on disposals		**(122)**	**-**	**-**	**-**	**(122)**
Depreciation at 31 July 2008		**59,976**	**8,586**	**2,279**	**29,847**	**100,688**
Net Book Value	**31 July 2008**	**237,098**	**16,842**	**3,478**	**11,025**	**268,443**
	1 August 2007	**194,543**	**14,725**	**3,727**	**8,715**	**221,710**

13 Heritage Assets

The University holds its heritage assets in two collections:

The Fine and Decorative Art Collection consists of 7,000 items of metal ware, fine furniture, ceramics, paintings, drawings, prints and sculptures. It is held in the Victoria Gallery and Museum in the University's iconic redbrick Victoria Building, which is open to the public. An insurance valuation was provided professionally by Sotheby's in 1997 and updated in 2007 to a figure of £15.9m, but £10m of that related to two items only, pictures by Lucien Freud and Turner, each valued at £5m.

The Heritage Collection consists of 15,000 museum objects which have been collected over many years by academic departments of the University, and has been brought together into the Victoria Gallery and Museum. Many of the objects may originally have had value for teaching purposes, but this is no longer the case. 10,000 items are geological specimens, and the remainder come from a wide range of departments of the University. The Collection has never been valued, and, given the wide range of objects, the cost of such a valuation is not considered to be practical.

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14 Fixed asset investments

	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	£000	£000
Market value of fixed asset investments	**804**	633	**664**	587
Properties	**5,870**	5,060	**5,119**	5,060
University companies at cost				
Ulive plc			**1,549**	
N8 Limited			**750**	
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
	6,674	5,693	**26,311**	23,876

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, which was wound up during the year, ULIVE plc, ULIVE Group Limited (wound up during the year), 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.

The financial statements include full consolidation of the results of the Liverpool School of Tropical Medicine, an affiliated organisation, on the basis of dominant influence.

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 (%)

Liverpool Science Park Limited	24.5
Neocare Limited	13.5

Notes to the Accounts

15 Endowment Assets

	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Balances as at 1 August	**132,057**	119,300	**124,521**	119,300
Opening balance of LSTM	**-**	7,079	**-**	-
Prior Year Adjustment	**-**	(1,572)	**-**	(1,572)
Balances as at 1 August restated	**132,057**	124,807	**124,521**	117,728
Purchases of investments	**25,316**	27,838	**25,164**	27,541
Disposal of investments	**(25,901)**	(21,024)	**(25,751)**	(20,771)
Appreciation of revaluation	**(21,198)**	2,162	**(20,056)**	1,894
Decrease in cash balances	**2,989**	(1,726)	**2,810**	(1,871)
As at 31 July	**113,263**	132,057	**106,688**	124,521
Represented by:				
Quoted equities	**80,256**	99,256	74,570	92,413
Fixed interest bonds	**17,877**	19,398	17,567	19,105
Property & other investments	**9,677**	10,940	9,677	10,940
Cash in bank held for endowment funds	**5,453**	2,463	4,874	2,063
Total Endowment Assets	**113,263**	132,057	**106,688**	124,521

In accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education (July 2007), the prior year adjustment relates to the restatement of endowments to treat correctly income donated in previous years.

16 Endowments - Consolidated

	Unrestricted Permanent	**Restricted Permanent**	**Total Permanent**	**Restricted Expendable**	**2008 Total**	2007 Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Restated Balances:						
Capital Value	**1,989**	**106,869**	**108,858**	**15,205**	**124,063**	113,256
Accumulated Income	**-**	**5,396**	**5,396**	**2,196**	**7,592**	4,472
As at 1 August 2007 (restated)	**1,989**	**112,265**	**114,254**	**17,401**	**131,655**	117,728
Net Additions/(disposals)	**-**	**1,215**	**1 ,215**	**363**	**1,578**	10,574
Appreciation/(Depreciation) of Investments	**(300)**	**(17,700)**	**(18,000)**	**(2,822)**	**(20,822)**	2,129
Investment Income	**85**	**3,757**	**3,842**	**626**	**4,468**	4,350
Expenditure	**(76)**	**(2,616)**	**(2,692)**	**(924)**	**(3,616)**	(2,724)
As at 31 July 2008	**1,698**	**96,921**	**98,619**	**14,644**	**113,263**	132,057
Represented by:						
Capital Value	**1,689**	**90,297**	**91,986**	**11,704**	**103,690**	124,657
Accumulated Income	**9**	**6,624**	**6,633**	**2,940**	**9,573**	7,400
	1,698	**96,921**	**98,619**	**14,644**	**113,263**	132,057

Notes to the Accounts

16 Endowments continued – University of Liverpool

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2008 Total £000	2007 Total £000
Restated Balances:						
Capital Value	**260**	**101,062**	**101,322**	**15,204**	**116,526**	113,256
Accumulated Income	**-**	**5,395**	**5,395**	**2,196**	**7,591**	4,472
As at 1 August 2007 (restated)	**260**	**106,457**	**106,717**	**17,400**	**124,117**	117,728
Net Additions/(disposals)	**-**	**1,216**	**1 ,216**	**364**	**1,580**	3,426
Appreciation/(Depreciation) of Investments	**(41)**	**(16,866)**	**(16,907)**	**(2,822)**	**(19,729)**	1,772
Investment Income	**9**	**3,579**	**3,588**	**627**	**4,215**	4,129
Expenditure	**-**	**(2,570)**	**(2,570)**	**(925)**	**(3,495)**	(2,534)
As at 31 July 2008	**228**	**91,816**	**92,044**	**14,644**	**106,688**	124,521
Represented by:						
Capital Value	**219**	**85,192**	**85,411**	**11,705**	**97,116**	117,153
Accumulated Income	**9**	**6,624**	**6,633**	**2,939**	**9,572**	7,368
	228	**91,816**	**92,044**	**14,644**	**106,688**	124,521

17 Debtors

	Consolidated		**University**	
	2008 £000	2007 £000	**2008** £000	2007 £000
Debtors - trade	**26,947**	38,118	**24,191**	28,859
intergroup	-	-	**2,171**	7,770
Prepayments and accrued income	**28,243**	16,111	**24,070**	16,087
	55,190	54,229	**50,432**	52,716

Included within intergroup debtors is £1,296k due over one year (2007: £747k).

Included within prepayments and accrued income is £83k due over one year (2007: £83k).

18 Creditors: Amounts falling due within one year

	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Bank Overdraft	**145**	148	**12**	-
Obligations under finance leases	**271**	249	**271**	249
Creditors - trade	**14,284**	34,329	**12,410**	13,669
- intergroup	-	-	**18,618**	6,552
Deferred Income	**46,430**	20,389	**33,043**	20,277
Social security and other taxation	**7,241**	6,290	**6,491**	5,515
Accrued charges	**15,972**	16,544	**11,165**	15,776
	84,343	77,949	**82,010**	62,038

19 Creditors: Amounts falling due after one year

	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Unsecured Loans payable by 2036	**40,000**	40,000	**40,000**	40,000
Unsecured Loans payable by 2028	**15,000**	-	**-**	-
Unsecured Loans payable by 2014	**600**	-	**-**	-
Obligations under Finance Leases				
due 2-5 years	**1,304**	1,212	**1,304**	1,212
due over 5 years	**2,197**	2,560	**2,197**	2,560
Other Creditors	**1,915**	1,083	**1,259**	91
	61,016	**44,855**	**44,760**	**43,863**

20 Deferred capital grants - university and consolidated

	Consolidated			University		
	Funding Council	Other Grants & Donations	**Total**	Funding Council	Other Grants & Donations	**Total**
	£000	£000	**£000**	£000	£000	**£000**
At 1 August 2007						
Buildings	119,670	43,023	**162,693**	103,892	27,931	**131,823**
Equipment	571	2,707	**3,278**	571	2,703	**3,274**
Total	120,241	45,730	**165,971**	104,463	30,634	**135,097**
Cash received/receivable						
Buildings	7,771	8,452	**16,223**	19,344	3,586	**22,930**
Equipment	-	813	**813**		813	**813**
Total	7,771	9,265	**17,036**	19,344	4,399	**23,743**
Released to income and expenditure						
Buildings	2,493	1,029	**3,522**	2,428	787	**3,215**
Equipment	245	1,735	**1,980**	245	1,731	**1,976**
Total	2,738	2,764	**5,502**	2,673	2,518	**5,191**
As 31 July 2008						
Buildings	124,948	50,446	**175,394**	120,808	30,730	**151,538**
Equipment	326	1,785	**2,111**	326	1,785	**2,111**
Total	125,274	52,231	**177,505**	121,134	32,515	**153,649**

21 Revaluation reserve

	Consolidated		University	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Balance 1 August	**4,885**	3,006	**4,345**	2,630
Revaluations in the period	**(576)**	3,285		3,000
Reserve movement relating to transfer to fixed assets	**18**	(842)	**18**	(842)
Transfer to profit and loss reserve	**(68)**	(564)		(443)
Balance 31 July	**4,259**	4,885	**4,363**	4,345

22 Income and expenditure reserves

	Consolidated		University	
	2008	2007 As Restated	**2008**	2007 As Restated
	£000	£000	**£000**	£000
Balance 1 August as previously stated	**134,262**	121,823	**134,338**	121,409
(Deficit)/Surplus on income and expenditure account	**(7,295)**	(4,290)	**(10,002)**	(3,679)
Prior Year Adjustment relating to Endowments	**-**	797	**-**	797
Transfer from Revaluation Reserve	**65**	564		443
Actuarial gain/(loss) on pension reserve	**(15,099)**	15,368	**(15,099)**	15,368
Balance 31 July	**111,933**	134,262	**109,237**	134,338
Represented by:				
University Reserves	**132,129**	141,564	**132,337**	141,564
Subsidiaries	**2,904**	(76)	**-**	-
Income & Expenditure Excluding Pension Reserve	**135,033**	141,488	**132,337**	141,564
Pension Reserve	**(23,100)**	(7,226)	**(23,100)**	(7,226)
	111,933	134,262	**109,237**	134,338

23 Access to Learning (Hardship) Funds

	2008	2007
	£000	£000
Income		
Excess of Income over Expenditure brought forward	**61**	
Funding Council grants	**493**	558
Interest earned	**7**	10
	561	568
Expenditure		
Disbursed to students	**(559)**	(571)
Audit fees	**(1)**	(1)
Excess of Income over Expenditure carried forward	**1**	(4)

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

In 2007 1,240 ordinary shares in ULIVE Innovations Limited were issued externally for cash, the nominal value being £1,240 and the consideration received was £124,000. Similarly, 1,260 preference shares in ULIVE Innovations Limited were issued for cash with a nominal value of £1,260 and consideration received of £126,000.

25 Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities

	2008	2007
	£000	£000
Deficit on continuing operations after depreciation of assets	**(5,568)**	(2,518)
Pension costs less contributions payable	**775**	859
Depreciation (notes 1 & 11)	**13,301**	9,700
Deferred capital grants released to income (note 20)	**(5,502)**	(5,354)
Finance lease interest charge	**298**	321
Exceptional payroll costs	**6,768**	-
Gain on sale of fixed assets	**(370)**	-
Interest on £40m private placement	**1,993**	1,263
Interest on £15m CHP Loan	**290**	-
Interest on ULIVE plc Loan	**5**	-
Other interest payable	**135**	-
(Increase)/Decrease in fixed asset investments	**(27)**	-
(Increase)/Decrease in stocks	**(202)**	(170)
(Increase)/Decrease in debtors	**(961)**	(11,686)
Increase/(Decrease) in creditors	**6,394**	23,952
Increase/(Decrease) in creditors > 1 year	**832**	
Increase/(Decrease) in current asset investments	**(407)**	
Purchase of new investments	**(981)**	(152)
Investment income	**(9,731)**	(9,760)
Non cash movement from reserves	**-**	4,840
Net cash inflow from operating activities	**7,042**	11,295

26 Analysis of Changes in Net Debt

	1 August 2007	Cashflows	Other changes	**31 July 2008**
	£000	£000	£000	**£000**
Cash in hand, and at bank				
Endowment assets investments	3,780	1,673	-	**5,453**
Cash in hand, and at bank	102,181	(14,428)	-	**87,753**
Overdrafts	(148)	3	-	**(145)**
	105,813	(12,752)	-	**93,061**
Finance leases				
Debt due within 1 year	(249)	(22)	-	**(271)**
Debt due after 1 year	(3,772)	271	-	**(3,501)**
Other debt due after 1 year	(40,000)	(15,600)	-	**(55,600)**
	61,792	(28,103)	-	**33,689**

27 Capital commitments

	Consolidated		**University**	
	2008	2007	**2008**	2007
	£000	£000	**£000**	£000
Authorised not yet contracted	**-**	15	**-**	15
Authorised and contracted	**31**	38	**31**	38
	31	53	**31**	53

28 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:

	2008	2007
	£000	£000
Contributions to Universities Superannuation Scheme	**13,967**	12,175
Contributions to University of Liverpool Pension Fund	**8,276**	7,641
Contributions to other schemes	**1,892**	1,501
Total Pension Cost (note 9)	**24,135**	21,317

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is 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 board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee acting on actuarial advice.

Because of the mutual nature of the scheme, the 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

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.

Notes to the Accounts

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 110% funded; on a buy-out basis (i.e. 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 funding level of the scheme has undergone considerable volatility. The actuary has estimated that the funding level had increased to 91% at 31 March 2007 but that at 31 March 2008 it had fallen back to 77%. This fluctuation in the scheme's funding level is due to a combination of the volatility of the investment returns on the scheme's assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also changing gilt yields, which are used to place a value on the scheme's liabilities. These estimated funding levels are based on the funding levels at 31 March 2005, adjusted to reflect the fund's actual investment performance and changes in gilt yields (i.e. the valuation rate of interest). On the FRS 17 basis, using a AA bond discount rate of 6% based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%. An estimate of the funding level measured on a buy out basis was approximately 78%.

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

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 that 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 £21493k (2007: £13,372k). 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 1.5% 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):

	2008	2007	2006	2005
	%	%	%	%
Rate of increase in salaries	**5.40**	5.30	5.00	5.00
Rate of increase in pensions in payment	**3.75**	3.30	3.00	2.75
Revaluation rate for deferred pensioners	**3.75**	3.30	3.00	2.75
Discount Rate	**6.60**	5.70	5.00	5.00
Inflation assumption	**3.90**	3.30	3.00	2.75

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

	Long-term rate of return expected at	Fair Value at	Long-term rate of return expected at	Fair Value at	Long-term rate of return expected at	Fair Value at	Long-term rate of return expected at	Fair Value at
	2008	**2008**	2007	2007	2006	2006	2005	2005
	%	**£000**	%	£000	%	£000	%	£000
Equities	**8.00**	**135,471**	8.00	148,979	8.00	136,699	8.00	132,760
Bonds	**5.25**	**41,882**	5.00	38,615	5.00	38,389	5.00	28,299
Cash	**4.50**	**3,723**	4.25	4,006	4.25	2,614	4.25	563
Property	**8.00**	**15,908**	8.00	20,330	8.00	18,909	8.00	16,585
Total market value of assets		196,984		211,930		196,611		178,207

	2008	2007	2006	2005
	£000	£000	£000	£000
Total market value of assets	**196,984**	211,930	196,611	178,207
Actuarial present value of scheme liabilities	**(220,084)**	(219,156)	(218,346)	(189,800)
(Deficit)/surplus in the scheme	**(23,100)**	(7,226)	(21,735)	(11,593)

Analysis of the amount charged to income and expenditure account

	2008	2007
	£000	£000
Employer service costs (net of employee contributions)	**8,441**	7,641
Total operating charge	**8,441**	7,641

Analysis of pension finance income

	2008	2007
	£000	£000
Expected return on pension scheme assets	**15,709**	14,372
Interest on pension liabilities	**(12,570)**	(11,591)
Pension finance income	**3,139**	2,781

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

	2008	2007
	£000	£000
Actuarial return less expected return on assets	**(29,487)**	3,866
Experience gains and losses on liabilities	**(7,776)**	1,074
Changes in assumptions underlying the present value of liabilities	**22,164**	10,428
Actuarial gain/(loss)	**(15,099)**	15,368

Movement in illustrative balance sheet figures during the year:

	2008	2007
	£000	£000
Deficit in scheme at beginning of year	**(7,226)**	(21,735)
Movement in year:		
Current service cost	**(8,441)**	(7,641)
Contributions	**4,527**	4,001
Net interest/return on assets	**3,139**	2,781
Actuarial gain/(loss)	**(15,099)**	15,368
(Deficit) in scheme at end of year	**(23,100)**	(7,226)

The total pension contribution to ULPF was £4,527k (2006: £4,001k). The contribution rate payable by the University was 13.4% of pensionable salaries.

	2008	2007	2006	2005	2004
Cumulative	**£000**	£000	£000	£000	£000
Difference between expected and actual return on scheme assets:					
Amount (£000)	**(29,487)**	3,866	7,388	20,947	69
Percentage of scheme assets	**-15%**	2%	4%	12%	0%
Experience gains and losses on scheme liabilities:					
Amount (£000)	**(7,776)**	1,074	(3,859)	2,754	10,038
Percentage of scheme liabilities	**-4%**	0%	-2%	1%	6%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities					
Amount (£000)	**22,164**	10,428	(13,670)	(17,155)	(10,897)
Percentage of scheme liabilities	**10%**	5%	6%	9%	7%
Total amount which is recognised in the consolidated statement of total recognised gains and losses:					
Amount (£000)	**(15,099)**	15,368	(10,141)	6,546	(790)
Percentage of scheme liabilities	**-7%**	7%	-5%	3%	0%

29 Post Balance Sheet Events

The University has not been immune from the decline in the global stock market, which impacts on the University's endowment assets and pension fund assets.