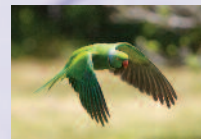


Financial Statements 2008



UNIVERSITY OF KENT

FINANCIAL STATEMENTS FOR THE YEAR TO 31 JULY 2008

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MEMBERSHIP OF THE COUNCIL 2007/08

Chair of the Council:	Valerie Marshall
Deputy Chair of the Council/ Chair of the Finance and Resources Committee:	John Simmonds
Chancellor:	Sir Robert Worcester
Vice-Chancellor:	Professor Julia Goodfellow
Senior Deputy Vice-Chancellor:	David Nightingale
President of the Students' Union:	Achike Ofodile
External members:	Judith Armitt Colin Carmichael Julia Casson Dr Eliot Forster Marcia Fry Stephen Grix Sally Muggeridge Richard Oldfield Vicky Pryce Anthony Quigley Mark Watts His Honour Judge Anthony Webb The Very Reverend Robert Willis 1 Vacancy
Staff and Student representatives:	Tom Christian Professor Joanne Conaghan Dr Konstantinos Sirlantzis Juliet Thomas Michael Woods
Total Membership:	25
Secretary of the Council:	Karen Goffin
The Chairs of Council committees were as follows:	
Audit Committee:	Anthony Quigley
Finance and Resources Committee:	John Simmonds
Lay Nominations Committee:	Valerie Marshall
Remuneration Committee:	Valerie Marshall
Safety, Health and Environment Executive Committee:	David Mee (to 27 April 2008)/Professor Keith Mander (from 28 April 2008)
Staff Policy Committee:	Marcia Fry

As prescribed in University Ordinance the Vice-Chancellor chairs the Joint Committee for Honorary Degrees, a joint committee of Senate and Council.

UNIVERSITY STATUS AND MISSION

STATUS

The University was incorporated by Royal Charter in 1965 and is an exempt charity within the meaning of the Charities Act.

MISSION

The University of Kent:

- Provides higher education of excellent quality
 - characterised by flexibility and interdisciplinarity
 - informed by research and scholarship
 - meeting the lifelong needs of a diversity of students
- Enlarges knowledge by research
 - to standards achieving international recognition
 - throughout its subject range
- Is an intellectual and cultural focus for Kent and Medway
- Supports national and regional economic success
- Builds vigorously on its close ties within Europe and continues to develop wider international relationships.

The main enabling activities to facilitate achievement of the Plan are:

- Effectiveness
 - Communicate effectively, internally and externally
 - Provide appropriate and well-equipped teaching, learning, research and support space for staff and students
 - Use interoperable administrative systems efficiently and effectively to support the University's objectives
- Sustainability
 - Generate net income for medium- and long-term survival
 - Recognise and control risk
 - Adopt an ethical approach to the use of resources
- Professionalism
 - Attract and retain good staff
 - Support staff to act professionally and confidently
 - Ensure sound management of the University.

OPERATING AND FINANCIAL REVIEW

Introduction and Scope of the Financial Statements

The Financial Statements for the year ended 31 July 2008 have been prepared on a consolidated basis and include all the recommendations outlined in the revised Statement of Recommended Practice (SORP): Accounting for Further and Higher Education effective from 1 August 2007. All subsidiary undertakings have been consolidated but only Kent Enterprise Limited was trading during the current and prior financial years. As a result of new and revised requirements set out in the SORP, these accounts contain a prior year adjustment relating to a change in the accounting for certain gifts and donations that had previously been classified as endowments but no longer meet the definition and also a change in the required treatment of donated assets. Details of the prior year adjustment and the impact on the current and previous financial years are given in Note 15 to the Statement of Principal Accounting Policies.

The University has had another successful year financially and academically, and continues to improve its results and facilities. Income has risen by 14% reflecting a further increase in student numbers and the final year of the introduction of variable fees. The University has exceeded its budget and generated a surplus of £5.7m. Continuing growth in teaching activity and strategic investment into research has meant 21% more staff have been submitted in the 2008 Research Assessment Exercise. Despite this, and in common with all universities, the University faces a number of challenges in the coming years, both in terms of the need to continue to grow income and to contain costs at a sustainable level. Specific pressures arise from:

- The need to replace income lost following the removal of funding for students registering for a lower or equivalent qualification;
- Pay costs that have risen at rates well above inflation, as a result of the national pay agreement for 2006-09;
- Potential increases in pension costs in future years;
- Predicted demographics of the Home/EU population and its impact on student demand;
- Continuing increases in student expectations;
- An uncertain world economic climate and possible constraints on the availability of capital;
- Increased global competition.

Financial Highlights for the Year to 31 July 2008

- Operating surplus of £5.7m;
- Residences and catering income up £3.3m largely due to successful conference activity and improved occupancy levels following refurbishment of study bedrooms;
- Effective cost control with favourable performance against budgeted expenditure;
- Improvement in Net Current Assets to £4.2m with strong liquidity levels at the year-end;
- Net increase in Tangible Assets of £8.8m.

Kent's Mission

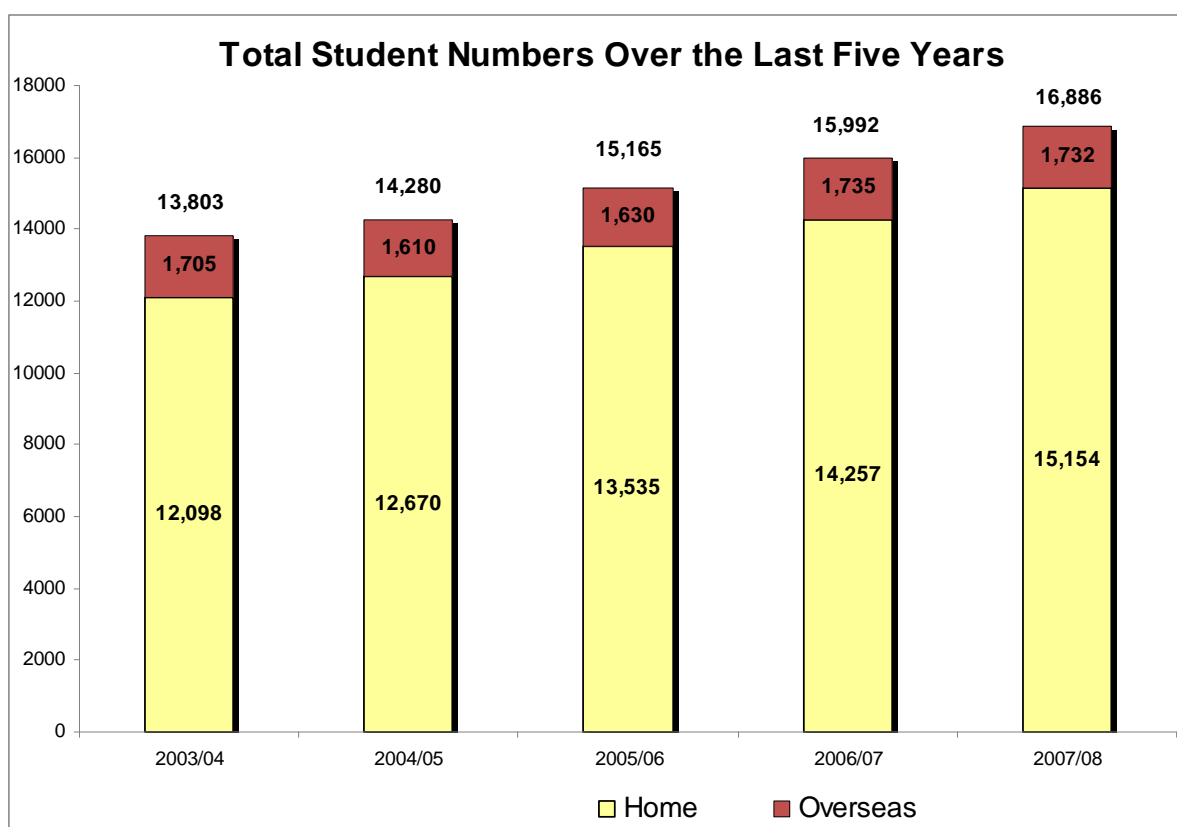
The University's vision, looking forward to 2015 is that "the exceptional student experience, internationally recognised research and strong partnerships of the University of Kent - the UK's European University - will make Kent one of the UK's outstanding universities". The strategy in place to achieve this is based on three core values of Excellence, Engagement and Enterprise, which are enabled by the partnerships between staff and students in academic schools and the staff in professional service departments that ensure that the University is run in an effective, efficient, sustainable and professional manner.

OPERATING AND FINANCIAL REVIEW

Inspiring and Supporting Students to Develop their Full Potential

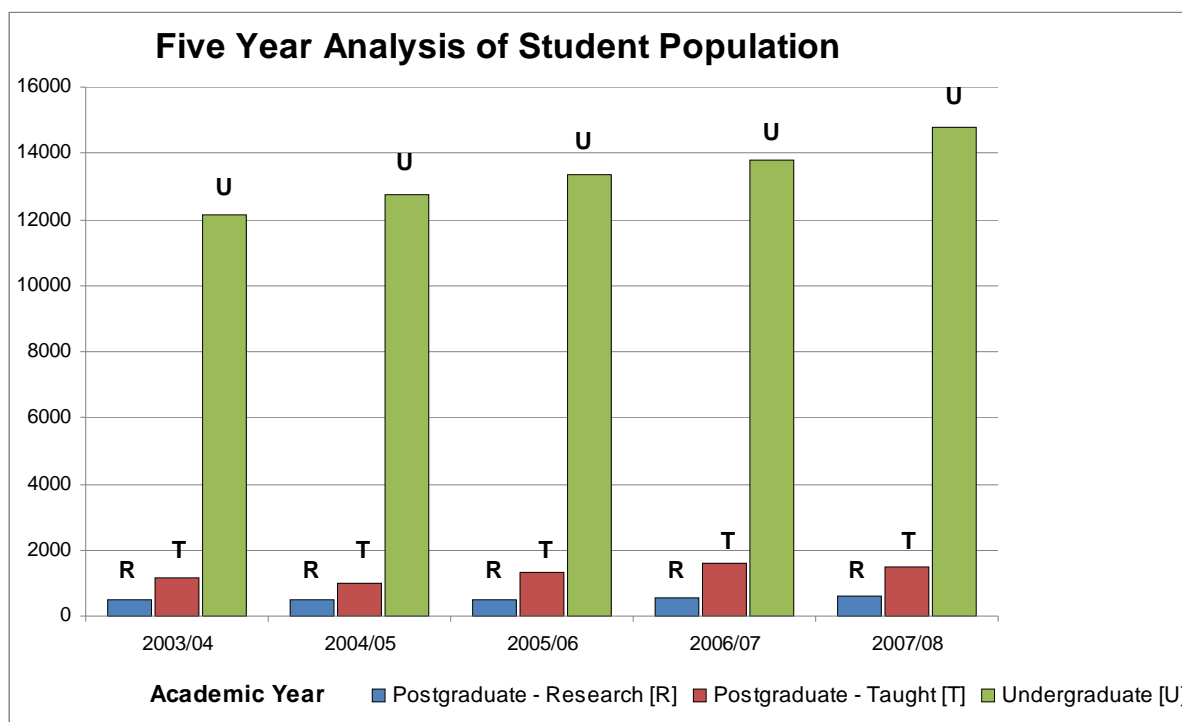
Key to the University's continuing financial strength is the desire to provide an excellent experience for its students. The University is proud to have been voted top University in London and the south-east for the second year running and is one of the top ten multi-faculty universities in the UK as shown in the results of the 2008 National Student Survey. The survey also revealed that over 90% of final year students were satisfied with the quality of their course.

Student numbers in the year grew by 6% and were consistent with growth levels in the past three years, another indication that Kent remains a popular choice for students in this competitive era of variable tuition fees. The number of overseas students fell marginally in the period but followed a year in which overseas students had leapt by over 6%.



The sustained increase in the number of undergraduate students over the past 10 years has not been matched by levels of postgraduate recruitment and the University will, over the coming years, seek to re-balance its mix of provision. Approximately 12% of Kent's student population are postgraduate students and in 2007/08, the number of full-time postgraduate students was at 1,266, its highest point to date. In total, over 1,450 students were studying for a postgraduate taught award and a further 612 were preparing for research degrees. Specific targets are in the process of being set during the formulation of the Institutional Strategy for the period 2009/10-2011/12, but significant growth is expected in postgraduate provision during that period.

OPERATING AND FINANCIAL REVIEW



In the period from 2004 to 2008, the University has spent £102m on new facilities and refurbishment of older academic and residential buildings, of which £34m has been funded by capital grants. The University is currently developing a new Estates Strategy to underpin the University's strategic ambitions over the next 15 years. Spend during 2007/08 is detailed below under Capital Projects.

Research

Research income has grown from £9.5m in 2003/04 to £13.0m in 2007/08, a rise of 37% and postgraduate research student numbers have increased from 498 to 612 (a rise of 23%). This is part of the University's strategy to increase its share of income from research. In addition, the University has put in place 90 university-funded postgraduate research scholarships. A Dean of the Graduate School has been appointed to lead the new strategy and a new Postgraduate College (Woolf College) providing 544 ensuite study bedrooms, a 496 seat lecture theatre and six seminar rooms will be completed by Christmas 2008. Recent grant awards are encouraging and have reflected a policy of applying for higher value grants. The 2008/09 budget shows a further increase in research income to £13.9m.

Enterprise and Innovation

During the year, planning permission was granted for the £6.5m development of a new 3,638m² Innovation Centre on the Canterbury campus, forming the first phase of a technology park, scheduled to open in the summer of 2009. The development is funded by SEEDA and follows work by the University and its local stakeholders, including Canterbury City Council.

The final allocation of the third round of the Higher Education Innovation Fund (HEIF 3) was received in the year and the 2008/09 year commenced with the successful announcement of a further £4.5m in HEIF 4 funding for the three year period to 2011. The Enterprise and Innovation Strategy has a significant strand of improving the opportunities for students to engage in innovation and enterprise as well as growing income from enterprise activities in thematic areas. During 2008/09, the University will carry out a format audit of its Intellectual Property with a view to improving support for academics and increasing exploitation.

OPERATING AND FINANCIAL REVIEW

Kent's International Profile

The University of Kent continues to grow its activity at its campus in Brussels and has entered into various collaborative or cooperative ventures with institutions in China and other fast developing countries. Many of our students are given the opportunity to spend a year abroad in either study or a work-based placement. A new Internationalisation Strategy has been agreed during the year and additional resources allocated to implement it.

Kent's contribution to the local and regional community

The 2007/08 academic year started well with the Kent Law Clinic, part of the University's Law School, achieving both the Queen's Anniversary Prize for Higher and Further Education and the Times Higher Education award for Outstanding Contribution to the Local Community in recognition of the service it delivers to the local community whilst "enriching the academic study of law" and providing a first class education to its law undergraduates.

Kent's commitment to its campus in Medway and in delivering its objectives in relation to the sector-wide Widening Participation Strategy was strengthened further during the year by the appointment of a new Pro-Vice-Chancellor for Medway activities.

Student numbers at Medway grew by an overall 26% in the year and in response to this increased demand, the University has now entered into an agreement with Berkeley First for the provision of student residences offering accommodation to more than 600 students as well as plans for an express-style supermarket and a café, to be completed by August 2009.

Major academic developments at the Medway campus include a new Centre for Work and Learning. A new Centre for Journalism has also been established with the first cohort of students being recruited in September 2008. This is an exciting course providing a practice-based, innovative curriculum taught by staff that have substantial experience at a senior level within the industry.

In addition, the University's School of Physical Sciences has become an important part of the South East Physics Network and is one of six departments in the south east to benefit from a £12.5m HEFCE-funded initiative. Acting together the Network will promote and sustain physics provision in the south-east and is part of a series of collaborative projects designed to strengthen research, teaching and knowledge transfer in science.

Measurement of Past and Future Performance

The University measures its performance with reference to a number of approved key performance indicators which are reported to Council at the end of each year. These measure performance and monitor progress in a number of areas, including institutional sustainability, student experience, financial health, knowledge transfer and relationships, staff development and estates and infrastructure. At its June 2008 meeting, the University reported good overall results in a number of these areas, with just under half the supporting indicators being reported as green and showing excellent performance in relation to progress on institutional projects. Further work was identified as being required to improve areas such as estates costs, conditions and utilisation levels, together with a further drive on research and postgraduate activities in line with the University Plan. Activities are already underway to address these issues with provision having been made in the current year budget for capital and strategic investments in these areas.

OPERATING AND FINANCIAL REVIEW

The Council reviewed the University's ongoing achievements against key targets at its July meeting and approved the 2008/09 budget in the context of key performance indicators set out in the University's Financial Framework. The budgeted surplus for 2008/09, at 2% of income, is consistent with the framework and has been set to ensure that continuing investment can be made both in strategic academic developments and in the University's estate. This is despite increased staff costs which are anticipated to rise to almost 58% of income as a result of the national pay settlement and further pressure from rising utility costs.

High planned levels of capital expenditure budgeted for 2008/09, to ensure that facilities and accommodation meet both the needs and expectations of our students will put pressure on cash reserves, but it is still expected that the target of 40 days expenditure will be achieved.

Growth in overall student numbers is expected to slow down, due to the availability of fewer additional funded full-time undergraduate student numbers across the sector; however, one of the University's key strategic goal is to expand postgraduate activity, with a higher than average budgeted increase in postgraduate student numbers.

The overseas student market, however, remains highly competitive and therefore future overseas numbers are expected to remain at levels achieved in 2007/08. It is anticipated that the implementation of the University's Internationalisation Strategy will ensure these levels are maintained and provide further means of expansion in this area in the medium term.

Financial Summary

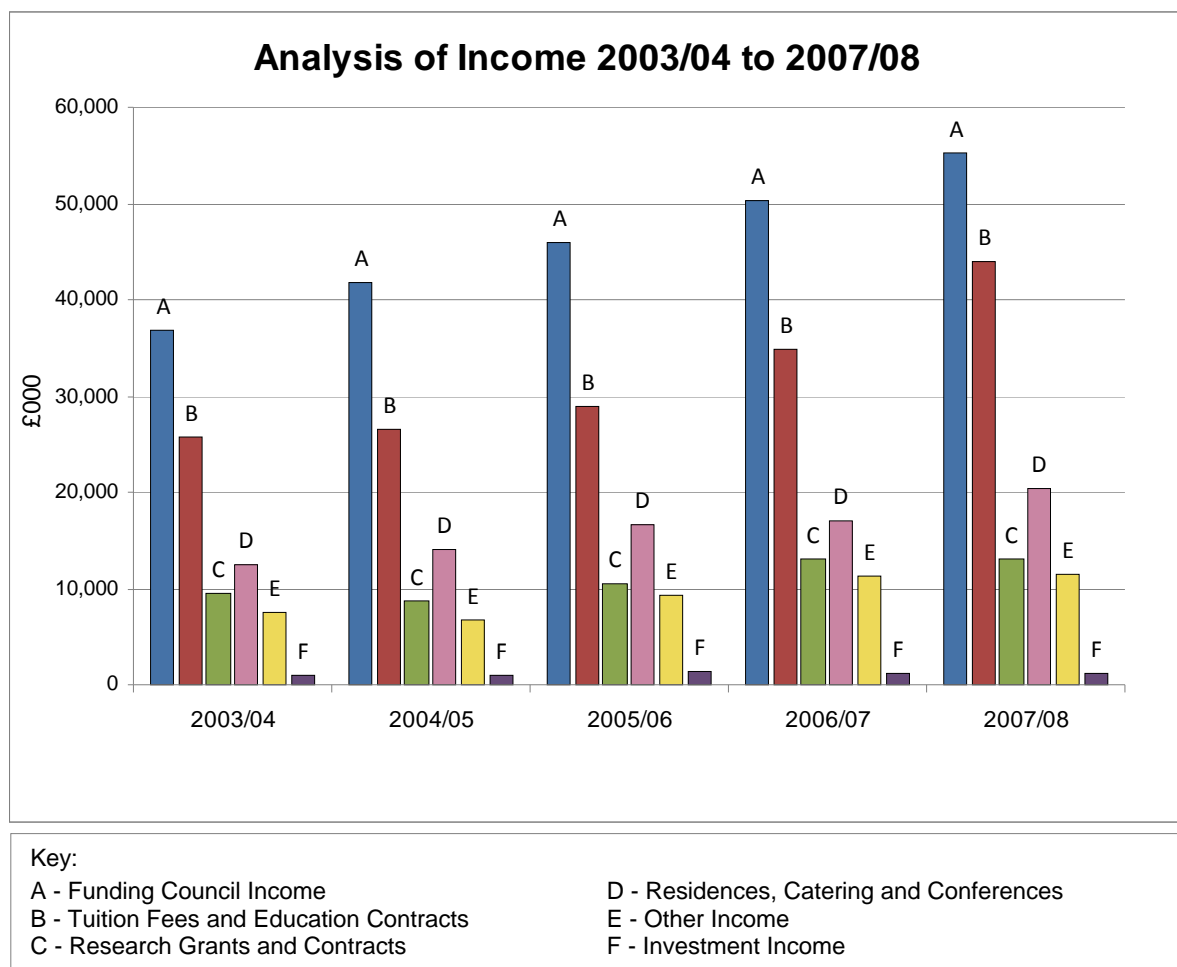
The University's consolidated results for the years ended 31 July 2008 and 31 July 2007 are summarised as follows:

	2007/08 £000	Restated 2006/07 £000	Change %age
Income	145,345	127,656	13.9
Expenditure	(139,745)	(124,935)	11.9
Transfer in respect of Specific Endowments	<u>92</u>	<u>83</u>	
Surplus for the Year	<u><u>5,692</u></u>	<u><u>2,804</u></u>	103.0

2007/08 has been another successful year resulting in a surplus of £5.7m (2006/07: £2.8m) which substantially exceeds the budget of £2.0m and has been once again been achieved by the continuation of positive income growth combined with effective budgetary control over expenditure.

OPERATING AND FINANCIAL REVIEW

Income

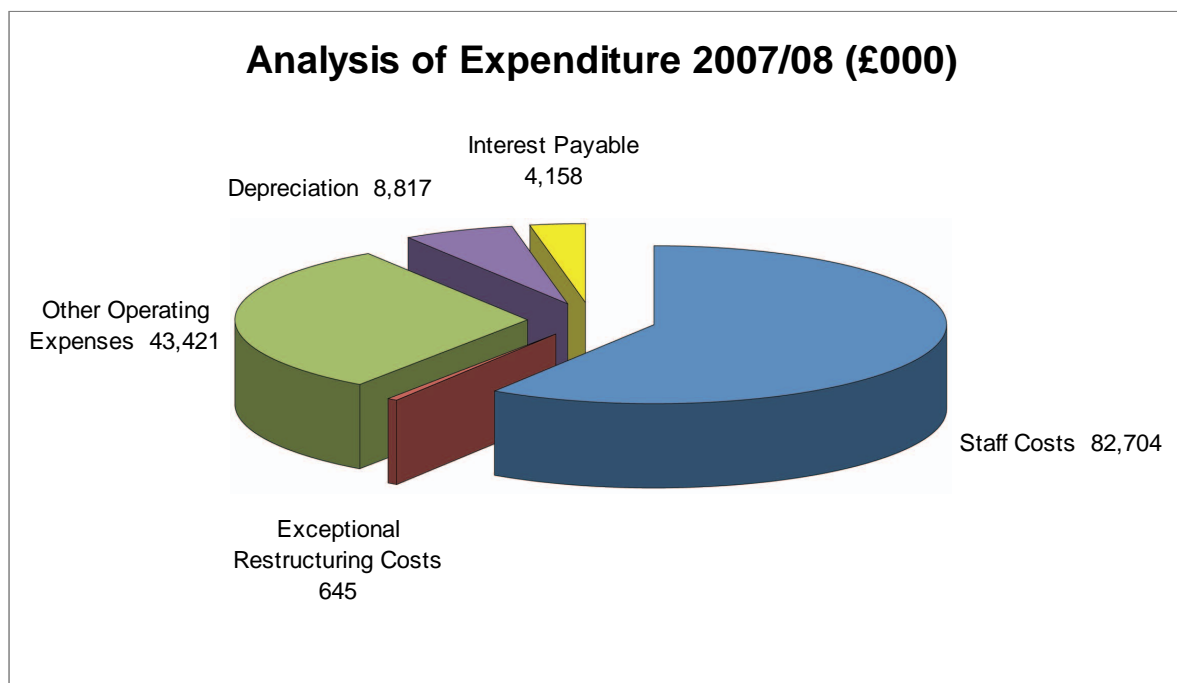


The growth in income follows another good year of recruitment, specifically of full and part-time Home/EU undergraduates together with encouraging growth in the number of full-time postgraduate students, particularly from overseas. The level of funding from the Higher Education Funding Council for England (HEFCE) was greatly improved by the allocation of funding for additional Home/EU students and £50.9m (2006/07: £46.6m) was received by way of block grant. In comparison to 2006/07, the second year of variable fees brought in an additional £4.7m net income after payments for a generous bursary scheme to assist students from less advantaged backgrounds.

The high levels of research income seen last year have been maintained with good margins continuing to be reported. Income from student residences has risen significantly with good control over associated costs and will continue to provide funds for refurbishing accommodation, catering and social facilities. Returns on investments and cash balances once again improved. Income from Kent Hospitality, the University's residential and catering division, exceeded budget by £1.7m as a result of a very successful year in the conference trade, an area that has developed well in past years and looks set to continue albeit at slightly lower levels. It is part of the University's strategy to pursue the growth and diversity of income levels as a means of ensuring sustainability for the future.

OPERATING AND FINANCIAL REVIEW

Management of Resources



Staff Costs rose by 11.1% in the year, following investments in academic departments to enhance further the research and teaching functions, with a number of new posts in departments within the Social Sciences faculty, together with an increased focus on the University's academic service provision and on enterprise activities. The implementation of the nationally negotiated pay settlement also continued to have an effect with a much larger impact anticipated for the coming year. During the year, the University reviewed the operations of one of its smaller academic departments, the Kent Institute of Medicine and Health Sciences, and made a decision to close down the department, resulting in the redeployment of 23 staff and 6 staff who opted to take voluntary severance. A new strategy for health-related activities is being developed and a closer working relationship with local NHS Trusts is being developed.

Average staff numbers increased by 103 full-time equivalents in the year, primarily in academic departments.

Other Operating Expenses increased by £5.3m (13.9%) but were well within budgeted levels and once again is evidence of effective cost control in a period of higher than anticipated inflation. Academic departments accounted for a further £1.2m, with planned strategic investments being made in the new Centre for Journalism and in providing new studentships. In Academic Services, an additional £0.3m was spent largely on e-strategy and systems software developments and on increasing and updating library stocks, together with an extra £0.2m on JISC-funded projects. Residences and catering costs increased by £1.0m as a result of increased conference activity.

Central administration costs also rose during the year by £2.5m which included an additional £1.0m payments to students in the form of bursaries, providing a total of £2.0m financial assistance to those students affected by variable tuition fees, the further development of the University's Medway and Brussels campuses and expansion of the University's Development Office to increase its capacity for fundraising. Research non-pay costs were well controlled and reduced by £0.8m in response to rising staff costs and helped push margins earned on these activities up to 18.5%.

OPERATING AND FINANCIAL REVIEW

Depreciation charged in the year increased by £1.0m following high levels of capital investment in refurbishing study bedrooms within Darwin College and revamping Mungo's Bistro. Work was also completed on the £1.5m refurbishment of the Rochester Building at Medway, incorporating a second Gulbenkian Café bar and a meeting and conference venue for University of Kent visitors.

Balance Sheet

Net Current Assets increased to £4.2m from £3.5m. Endowments decreased by just under £0.1m as a result of reclassifications required in accordance with the revised SORP for Higher and Further Education. Loan capital repayments led to a reduction in long-term creditors as expected but was offset by the reclassification of a long-term lease premium received in advance. Restructuring provisions increased slightly as a result of the closure of a department at the end of the year. The University's main pension schemes are USS and SAUL and are multi-employer schemes and continue to be accounted for as defined contribution schemes. The University follows the requirements of FRS17 in relation to the accounting for the Local Government Pension Scheme for which it has one remaining member and the pension deficit can be seen on the balance sheet; during the year, the deficit increased by £149,000 and now stands at £474,000. Full details of the pension schemes can be found in Note 28 to the financial statements.

Investment Management

The University's current asset and endowment investments are invested in Common Investment Funds managed by CCLA Investment Management Limited (CCLA).

During the year the Investment Advisory Group monitored the returns from both the Common Investment Funds and the high interest bearing deposit accounts. The COIF and CBF Investment Funds reflected weak market trends and produced negative returns over the period. The bias towards long-term assets such as equities and property in these funds meant that they underperformed the WM Co. Charity Fund Universe. The COIF and CBF Fixed Interest Funds produced positive returns and outperformed the benchmark.

As a result of the above and in line with the general economic downturn, the market value of the University's Endowment Assets fell by £0.6m and now stand at £4.4m whilst the market value of Current Asset Investments fell to just above cost.

Cash Flow

The University's cash position at the end of the year remains strong and was better than planned due to the higher than budgeted surplus in the period, some timing delays of major capital projects and the advance payment of certain grants. Plans are still in place to invest just over £110m into the estate over the next five years, of which circa £60m will be required to be self or loan funded and Council has agreed that it is appropriate for cash holding levels to reduce to finance this investment as new facilities are built or refurbished to meet rising student expectations.

Total Cash, Short-Term Deposits and Current Asset Investments at market value have increased by £3.2m as follows:

	2008 £000	Restated 2007 £000	Change %age
Cash Deposits and Short-Term Deposits	15,217	11,995	26.9
Current Asset Investments at Market Value	<u>3,574</u>	<u>3,614</u>	(1.1)
	<u>18,791</u>	<u>15,609</u>	20.4

OPERATING AND FINANCIAL REVIEW

Capital Projects

Capital expenditure amounted to £17.6m in the year, of which £4.6m was spent on the construction of a 496 seat lecture theatre and new seminar rooms as part of the Woolf College development. Work will continue into 2008/09 with an expected total cost of £6.7m. The refurbishment of the Rochester Building at Medway, with catering and conference facilities for University of Kent staff, students and visitors, was completed with additional costs this year of £0.8m. Other developments in Canterbury included a £3.8m series of lecture theatre, seminar room and laboratory refurbishments, mainly funded by 2006-08 HEFCE teaching and learning capital grants, and the continuation of a rolling programme of refurbishing student residences at a cost of £2.0m, including the completion of refurbishments of bedrooms within Darwin College started in 2007/08. Planning approval was eventually granted for the construction of a landmark new building for the School of Drama, Film and Visual Arts and work commenced in October 2008 with expected completion in December 2009. This will offer considerably improved facilities and performance space and is a project that is part-funded from HEFCE Teaching and Research Capital Grants.

Gearing

Long-term bank loan debt has fallen by £2.0m in the year with gearing levels now reduced to 42% as a percentage of income as earlier investments are now generating income. Further loan funding is being considered as part of the overall capital investment plan.

Equal Opportunities and Diversity

In line with the general intention of its Charter and the law, the University confirms its commitment to policies of equality and diversity, and to the implementation of these policies.

Equality and diversity issues, relating both to staff and students, are regularly considered by the Staff Policy and Student Services Committees. The University employs an Equality and Diversity Manager who acts as a focus for work in these areas on a day-to-day basis.

Employee Involvement

The University places considerable value on the involvement of its employees and on good communications. Newsletters are produced during the year for all staff and information and regular news updates are also available via 'Campus on-line' and 'News' on the University website and from heads of departments reporting back from Monthly Managers' Meetings. Staff are also encouraged to participate in formal and informal consultation at University, faculty and departmental level and have regular opportunities to interact with the Vice-Chancellor at departmental and informal meetings and social occasions. In addition there are termly meetings with the recognised Trades Unions and representatives of non-union staff and managers. There are four elected staff representatives on Council.

During 2007/08, a staff engagement survey was undertaken to which 66% of staff responded and results disseminated and discussed widely within the University. While identifying specific areas for improvement that will be addressed, the overall feedback was that 86% of staff were proud to work for the University. In addition, a new survey studying the quality of life for staff in Higher Education ranked Kent as one of the best in the country, with a rank of 13 out of 121 in the first-ever Halifax Times Higher Education university quality of life index.

Payment of Creditors

It is the University's policy to obtain the best terms for all business and, thus, there is no single policy as to the terms used. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms.

OPERATING AND FINANCIAL REVIEW

Going Concern

After making appropriate enquiries, the Council considers that the University has adequate resources to continue in operational existence for the foreseeable future. For this reason the financial statements have been prepared on a going concern basis.

Conclusion

2007/08 has been an extremely successful year for the University, with excellent financial results, strong student recruitment, the continued generation of high income levels, in particular from increased conference activity and research, and effective cost control in a period of high inflationary pressures. The University continues to meet students' expectations in providing good facilities and a thriving learning environment, as evidenced by another excellent performance in this year's National Student Survey. The completion of Woolf College, the University's first postgraduate college, was a major highlight of the year, together with the refurbishments of a number of teaching and social facilities and the ongoing development of a number of other major capital projects, which will bring great benefits to students, staff and the local community.

All of this would not have been possible without the continued expertise and enormous commitment of all staff across the University. I am sure Council will wish me to thank everyone involved in helping to make 2007/08 another tremendously successful year.

Professor Julia Goodfellow

Vice-Chancellor

27 November 2008

CORPORATE GOVERNANCE STATEMENT

The Statement which follows is provided to enable readers of the Annual Report and Accounts of the University to obtain a better understanding of its governance and legal structure.

The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities given by the Committee of University Chairmen (CUC) in its Guide for Members of HE Governing Bodies in the UK (November 2004). The University is committed to achieving best practice in all aspects of Corporate Governance.

The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in 1965. Its objects, powers and framework of governance are set out in the Charter and its supporting statutes, the latest version of which was approved by the Privy Council in 2006.

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** is the executive governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. Council has 25 members with a majority (17 members - 68%) from outside the University (described as lay members), from whom its chair and its deputy chair must be appointed. Members also include representatives of the staff of the University and the student body. Members do not receive any payment for their work in relation to the Council. Lay members may, however, claim reimbursement of associated travel costs and expenses.
- **The Senate** is the academic authority of the University and draws its membership (currently 46 members) almost entirely from academic and research staff and students of the University. Its role is to direct and regulate the teaching and research work of the University.
- **The Court** is a large, mainly formal, body comprising over 400 members. It offers a means whereby the wider interests served by the University can be associated with the institution, and provides a forum where members of Court can be briefed and comment on key University activities and developments. The Court meets at least once a year to receive the Annual Report and audited financial statements of the University. In addition the Court appoints the Chancellor, on the nomination of the Council after consultation with Senate, whose role is to preside over meetings of the Court and Congregations for the conferring of degrees. Many members of the Court are from outside the University, representing the local community and other designated bodies with an interest in the work of the University. The membership also includes professorial staff and representatives of other staff (both academic and non-academic) and the student body.

The Vice-Chancellor, the principal academic and administrative officer of the University, has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the Financial Memorandum between the University and the Higher Education Funding Council for England (HEFCE), the Vice-Chancellor is the accounting officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

CORPORATE GOVERNANCE STATEMENT

The University's compliance with the CUC Governance Code of Practice includes the adoption of a Statement of the Council's Primary Responsibilities which may be found on the Central Secretariat's website. In brief this encompasses: the appointment of the senior staff and lay members/officers; amendments to the University's Royal Charter, Statutes and Ordinances; matters relating to the University's mission, vision and strategic aims; corporate level financial matters and decisions; institutional performance and other requirements arising from the University's constitutional framework, institutions such as the Funding Council and legislation.

Another requirement from the CUC's Code is that the Vice-Chancellor provides an annual report to the Council on matters delegated to him/her by Council and arising from Statutes; this is completed in the Autumn Term each year and published on the Central Secretariat website. During 2005/06 Council agreed to undertake a review of its effectiveness and this was undertaken during Summer 2008 (to be considered by the Council during 2008/09). In December 2006 Council considered the University's position against identified Key Performance Indicators (KPIs) approved in June 2006. Following review of the KPIs proposed in a report from CUC (November 2006) revised KPIs were adopted and Council considered the University's performance against these in June 2007 and July 2008. The position will next be reviewed in July 2008. It is intended that overall institutional performance will be reviewed by the Council in 2008/09.

Although Council meets at least five times each academic year, much of its detailed work is initially handled by committees, in particular the Finance and Resources Committee, the Staff Policy Committee, the Lay Nominations Committee, the Remuneration Committee and the Audit Committee. The decisions of these committees are formally reported to the Council. These committees are formally constituted as committees of the Council with written terms of reference and specified membership, including lay members (from whom Council generally appoints chairs).

As chief executive of the University, the Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments, and shaping of the institutional ethos. The Deputy and Pro-Vice-Chancellors, Director of Finance and Commercial Services and senior academic and administrative officers all contribute in various ways to aspects of this work but the ultimate responsibility for what is done rests with the Council.

The Statutes of the University provide for the Council to appoint a Secretary of the Council (and of the Court). Any enquiries about the constitution and governance of the University should be addressed to the Secretary of the Council.

The University maintains a Register of Interests of members of the Council and other staff which may be consulted by arrangement with the Secretary of the Council.

Statement of Internal Control

The University Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which the University is responsible, in accordance with the responsibilities assigned to the Council in the University's Charter and Statutes and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

CORPORATE GOVERNANCE STATEMENT

The system of internal control is based on an ongoing process for identifying, evaluating and managing the significant risks faced by the University. This process is designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2008 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

The Council is responsible for the University's system of internal control and for reviewing its effectiveness. The following processes have been established:

- Council meets at least five times each year to consider the plans and strategic direction of the University
- Council receives an annual report on Risk Management and the annual reports of the Audit Committee and the Head of Internal Audit Services evaluating the assurance provided by internal controls, including the principal results of risk identification, evaluation and management review of effectiveness
- The Vice-Chancellor's Executive Group oversees risk management and receives regular reports on risk management activity and performance
- The Audit Committee receives regular reports from the Head of Internal Audit Services which include the Head of Internal Audit Services' independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement
- A University-wide prioritised risk register is maintained, linked to the achievement of institutional objectives and covering business, operational, compliance and financial risk, and it is kept up to date through an annual risk assessment exercise to review the risks included and the scorings applied to each
- Risks deemed to be significant are addressed through detailed action plans, with key performance data being collected termly and reported to the Executive Group
- Heads of Academic Departments are charged with the identification and management of risk under the University's Strategic Planning Model.

Council's review of the effectiveness of the system of internal control is informed by Internal Audit Services, which operates to standards defined in the HEFCE Audit Code of Practice (Accountability and Audit). The Internal Audit Service was reviewed for effectiveness by the HEFCE Assurance Service in January 2005, and found to provide a high level of assurance. Council's review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the External Auditors in their management letter and other reports.

In 2006 the University's Audit Committee established a working group to review the University's risk management practices in the light of HEFCE best practice guidance (HEFCE 2005/11). Actions were agreed to refine the current system and implementation of these plans were managed by the Head of Internal Audit Services throughout 2007/08.

STATEMENT OF THE RESPONSIBILITIES OF THE UNIVERSITY'S COUNCIL

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

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Charter and Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions and other relevant accounting 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, 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 ensured that:

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

The Council has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum agreed with HEFCE and any other conditions which HEFCE may from time to time prescribe
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources
- safeguard the assets of the University and 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, heads of academic and administrative departments
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of academic performance and financial results involving variance reporting and updates of forecast outturns
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance and Resources Committee and the Council
- a professional Internal Audit Office whose annual programme is approved by the Audit Committee in line with the Full Statement of Internal Control.

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF THE UNIVERSITY OF KENT

We have audited the consolidated financial statements of the University of Kent for the year ended 31 July 2008, which comprise the Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention as modified by the revaluation of certain fixed assets and the accounting policies set out therein.

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

Respective Responsibilities of Members of the Council and Auditors

As described in the statement of the responsibilities of the University's Council, the Council is responsible for the preparation of the financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards.

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

We report to you our opinion as to whether the financial statements give a true and fair view and if, in our opinion, the Report of the Chair of Finance and Resources Committee is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit. We also report to you whether, in our opinion, monies expended out of funds from whatever source administered by the University for specific purposes were properly applied for those purposes and, where relevant, managed in accordance with appropriate legislation and whether monies expended out of fund provided by the Higher Education Funding Council for England, the Learning and Skills Council or the Teachers Training Agency were applied in accordance with the financial memorandum and any other terms and conditions attached to them.

We read the Report of the Chair of the Finance and Resources Committee and consider the implications for our report if we become aware of any apparent misstatement 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 the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University'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.

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF THE UNIVERSITY OF KENT

Opinion

In our opinion:

- i. The financial statements give a true and fair view of the state of affairs of the University of Kent and the group at 31 July 2008, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the University of Kent and the group for the year then ended; and the statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.
- ii. In all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University of Kent have been applied only for the purposes for which they were received.
- iii. In all material respects, income has been applied in accordance with the University of Kent's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England dated 1 October 2003.

Grant Thornton UK LLP

Chartered Accountants and Registered Auditors
Hemel Hempstead, England
27 November 2008

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 JULY 2008**

	Note	2007/08 £000	Restated 2006/07 £000
INCOME			
Funding Council Grants	1	55,325	50,395
Tuition Fees and Education Contracts	2	43,921	34,884
Research Grants and Contracts	3	13,032	13,076
Other Income	4	31,803	28,150
Endowment and Investment Income	5	<u>1,264</u>	<u>1,151</u>
Total Income		<u>145,345</u>	<u>127,656</u>
EXPENDITURE			
Staff Costs	6	82,704	74,413
Exceptional Restructuring Costs	6	645	300
Other Operating Expenses	7	43,421	38,111
Depreciation	11	8,817	7,781
Interest Payable	8	<u>4,158</u>	<u>4,330</u>
Total Expenditure		<u>139,745</u>	<u>124,935</u>
Surplus after Depreciation of Assets at Cost and before Disposal of Assets, Tax and Transfers in respect of Specific Endowments		5,600	2,721
Taxation	9	-	-
Transfers in respect of Specific Endowments		92	83
Surplus after Depreciation of Assets at Cost, Disposal of Assets, Tax and Transfers in respect of Specific Endowments		<u>5,692</u>	<u>2,804</u>

There is no difference between the surplus stated above and the historical cost equivalent.

All gains and losses recognised in the year are included above.

All income and expenditure recognised above is derived from continuing operations.

**STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2008**

	Note	2007/08 £000	Restated 2006/07 £000
Surplus on Continuing Operations after Depreciation of Assets at Cost, Disposal of Assets, Tax and Transfers in respect of Specific Endowments		5,692	2,804
Donated Assets Received	21	-	-
Unrealised (Losses)/Gains on Endowment Asset Investments	19	(683)	267
New Endowments and Income Retained for the Year	19	98	24
Actuarial (Loss)/Gain on Pension Scheme	28	<u>(248)</u>	<u>95</u>
Total Recognised Gains and Losses on Continuing Operations relating to the Year		<u>4,859</u>	<u>3,190</u>

RECONCILIATION

Opening Reserves and Endowments	54,306	51,092
Prior Year Adjustment: Reclassification of Donated Assets Received	<u>-</u>	<u>(33)</u>
Restated Opening Reserves and Endowments	54,306	51,059
Transfer Reserves from Imperial College	21	57
Total Recognised Gains and Losses for the Year	<u>4,859</u>	<u>3,190</u>
Closing Reserves and Endowments	<u>59,186</u>	<u>54,306</u>

The full impact of the Prior Year Adjustment on the University's Consolidated Reserves and Endowments, as described in Note 15 of the Statement of Principal Accounting Policies, can be seen as follows:

	£000
Adjustment to Opening Reserves at 1 August 2006	108
Adjustment to Endowments at 1 August 2006	(141)
Adjustment to Income and Expenditure Account for the Year Ended 31 July 2007	18
Other Adjustments to the Statement of Consolidated Total Recognised Gains and Losses for the Year Ended 31 July 2007:	
New Endowments and Income Retained for the Year	<u>(4)</u>
Total Prior Year Adjustment	<u>(19)</u>

BALANCE SHEETS AS AT 31 JULY 2008

	Note	Consolidated Restated		University Restated	
		2008 £000	2007 £000	2008 £000	2007 £000
FIXED ASSETS					
Tangible Assets	11	155,419	146,628	155,419	146,628
Investments	12	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
		<u>155,419</u>	<u>146,629</u>	<u>155,419</u>	<u>146,629</u>
ENDOWMENT ASSETS					
	13	<u>4,446</u>	<u>5,031</u>	<u>4,446</u>	<u>5,031</u>
CURRENT ASSETS					
Stocks		534	515	534	515
Debtors	14	9,513	9,997	9,446	9,841
Investments	13	3,574	3,614	3,574	3,614
Short-Term Deposits		145	351	145	351
Cash at Bank and in Hand		<u>15,072</u>	<u>11,644</u>	<u>14,978</u>	<u>11,544</u>
		28,838	26,121	28,677	25,865
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	15	<u>(24,615)</u>	<u>(22,642)</u>	<u>(24,611)</u>	<u>(22,638)</u>
NET CURRENT ASSETS					
		<u>4,223</u>	<u>3,479</u>	<u>4,066</u>	<u>3,227</u>
TOTAL ASSETS LESS CURRENT LIABILITIES					
		164,088	155,139	163,931	154,887
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	16	(63,960)	(64,913)	(63,840)	(64,698)
PROVISIONS FOR LIABILITIES AND CHARGES					
	17	<u>(1,215)</u>	<u>(537)</u>	<u>(1,215)</u>	<u>(537)</u>
NET ASSETS EXCLUDING PENSION LIABILITY					
		98,913	89,689	98,876	89,652
NET PENSION LIABILITY					
		<u>(474)</u>	<u>(325)</u>	<u>(474)</u>	<u>(325)</u>
NET ASSETS					
		<u><u>98,439</u></u>	<u><u>89,364</u></u>	<u><u>98,402</u></u>	<u><u>89,327</u></u>

BALANCE SHEETS AS AT 31 JULY 2008

	Note	Consolidated Restated		University Restated	
		2008 £000	2007 £000	2008 £000	2007 £000
DEFERRED CAPITAL GRANTS	18	<u>39,253</u>	<u>35,058</u>	<u>39,253</u>	<u>35,058</u>
ENDOWMENTS					
Expendable	19	3,374	3,830	3,374	3,830
Permanent	19	<u>1,072</u>	<u>1,201</u>	<u>1,072</u>	<u>1,201</u>
		<u>4,446</u>	<u>5,031</u>	<u>4,446</u>	<u>5,031</u>
RESERVES					
Pension Reserve	20	(474)	(325)	(474)	(325)
Revaluation Reserve	21	8,431	8,431	8,431	8,431
General Reserve	22	<u>46,783</u>	<u>41,169</u>	<u>46,746</u>	<u>41,132</u>
		<u>54,740</u>	<u>49,275</u>	<u>54,703</u>	<u>49,238</u>
TOTAL FUNDS		<u>98,439</u>	<u>89,364</u>	<u>98,402</u>	<u>89,327</u>

The financial statements on pages 20 to 52 were approved by the Council on 27 November 2008 and signed on its behalf by:

Professor Julia Goodfellow
Vice-Chancellor

Richard Oldfield
Deputy Chair of the Finance and Resources Committee

Denise Everitt
Deputy Vice-Chancellor (Finance and Commercial Services)

**CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2008**

	Note	2007/08 £000	Restated 2006/07 £000
Cash Flow from Operating Activities	23	18,774	13,036
Returns on Investments and Servicing of Finance	24	(2,937)	(3,175)
Capital Expenditure and Financial Investment	25	(10,707)	(10,349)
Management of Liquid Resources	26	148	(228)
Financing		<u>(1,850)</u>	<u>(1,727)</u>
Increase/(Decrease) in Cash in the Year		<u>3,428</u>	<u>(2,443)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2007/08 £000	Restated 2006/07 £000
Increase/(Decrease) in Cash in the Year	3,428	(2,443)
(Inflow)/Outflow from Liquid Resources	(148)	228
Repayment of Debt	1,850	1,727
Current Asset Investments: Non-Cash Movements	<u>(98)</u>	<u>117</u>
Change in Net Debt in the Year	5,032	(371)
Net Debt at 1 August	<u>(48,849)</u>	<u>(48,478)</u>
Net Debt at 31 July	27 <u>(43,817)</u>	<u>(48,849)</u>

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. 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 United Kingdom Accounting Standards.

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

2. Basis of Consolidation

The consolidated financial statements include the University and its subsidiary undertaking, Kent Enterprise Limited. Intra-group transactions are eliminated fully on consolidation. In accordance with FRS2, the activities of the Students' Union have not been consolidated because the University does not control those activities. The activities of The University of Kent Development Trust have not been included, as the amounts involved are immaterial.

3. Recognition of Income and Expenditure

Recurrent block grants from the Higher Education Funding Council for England (HEFCE) are recognised in the period in which they are received.

Fee income is stated gross and recognised over the related study period. Where the tuition fee has been reduced by a payment discount, the income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure.

Income from research grants, contracts and other services rendered is included to the extent of completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs. Any future predicted losses on individual long-term contracts are recognised immediately. Any payments received in advance are included in the Balance Sheet within creditors.

Donations with restrictions attached are recognised when the relevant conditions have been met. Donations which are to be retained for the benefit of the University are recognised in the Statement of Consolidated Total Recognised Gains and Losses and in endowments; other donations are recognised by inclusion as other income in the Income and Expenditure Account.

Income from short-term deposits and current asset investments is credited to income in the period in which it is earned.

Endowment income is credited to the Income and Expenditure Account on a receivable basis. Any income on restricted endowments earned in excess of that applied to the specific purpose 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 endowments in the Balance Sheet.

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

4. **Agency Arrangements**

Any funds that the University receives and disburses whilst acting as agent on behalf of a funding body and where the University is exposed to minimal risk or enjoys minimal economic benefit in relation to the transaction, are excluded from the Income and Expenditure Account.

5. **Maintenance of Premises**

The University has a long-term rolling maintenance plan, which forms the basis of the ongoing maintenance of the estate. The cost of long-term and routine corrective maintenance is charged to the Income and Expenditure Account as incurred.

6. **Foreign Currency Translation**

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. All resulting exchange differences are taken to the Income and Expenditure Account in the period in which they arise.

7. **Pension Schemes**

The University has fully adopted Accounting Standard FRS17 'Retirement Benefits'. The impact of this standard has been reflected throughout the financial statements.

Retirement benefits for most employees of the University are provided by the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). These are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The assets of both schemes are held in separate trustee administered funds. The University is unable to identify its share of the underlying assets and liabilities of the schemes on a consistent and reasonable basis and therefore, as required by FRS17, accounts for the schemes as if they were defined contribution schemes. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the schemes in respect of the accounting period. Informal reviews of the position of the schemes are carried out between formal valuations.

Some employees of the University participate in the local government pension fund which is a defined benefit scheme in which the University's share of the underlying assets and liabilities have been separately identified. For this fund, the difference between the University's share of the fair value of the assets held in the fund and the fund's liabilities, measured on an actuarial basis using the projected unit method, is recognised in the University's Balance Sheet as a pension scheme asset or liability, as appropriate. The pension scheme balance is recognised net of any related deferred tax balance.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contributions by the University are charged to the Income and Expenditure Account or the Statement of Consolidated Total Recognised Gains and Losses in accordance with FRS17.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

8. Tangible Fixed Assets

Land and Buildings

Land was valued on an open market existing use basis by Grimley - JR Eve (Chartered Surveyors) on 3 May 1995. In keeping with the transitional rules set out in FRS15 this land valuation is retained as the cost of that land. Freehold land is not depreciated. The University buildings are specialised buildings and therefore it is not appropriate to value them on the basis of open market value. Buildings are included in the Balance Sheet at cost together with subsequent refurbishment expenditure less accumulated depreciation.

Depreciation on buildings is provided on a straight-line basis over their expected useful economic lives as follows:

Freehold buildings	50 years
Components of new buildings e.g. lift, heating, electrical system etc	25 years
Refurbishment of academic facilities	15 years
Refurbishment of accommodation	10 years
Refurbishment of dining and trading facilities	5 years

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

Certain buildings situated at the Universities at Medway campus are jointly owned by the University of Kent and the University of Greenwich. All costs associated in the purchase and refurbishment of these buildings have been shared equally between both parties and the University of Kent share of this cost has been capitalised in the Balance Sheet.

Finance costs, which are directly attributable to the construction of land and buildings, are capitalised as part of the cost of those assets, where appropriate.

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

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

Equipment

Equipment costing less than £5,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised at cost.

Capitalised equipment is depreciated over its useful economic life as follows:

General equipment and furniture	5 to 10 years
Computer equipment and software	3 to 5 years
Equipment acquired for specific research or other projects	Project life (generally 3 years)

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

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

9. Investments

Fixed asset investments that are not listed on a recognised stock exchange are carried at historical cost less any provision for impairment of their value.

Investments that form part of endowment assets are included in the Balance Sheet at market value and any subsequent appreciation or depreciation of endowment assets is added to or subtracted from the reported endowment funds. Current asset investments are included at the lower of their original cost and net realisable value on a portfolio basis.

10. Stocks

Stocks are stated at the lower of their cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

11. Taxation

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charitable company within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA 1988 and Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to charitable purposes only, and the extent to which any such exemption is not disapplied by Section 505(4) in respect of non-charitable expenditure arising from non-primary purpose trading. In the event that non-primary purpose trading losses arise, the University treats the trades concerned as being carried out on a commercial basis with a view to realisation of gain within the larger undertaking of the University so that Section 393A(3)(b) of the ICTA 1988 applies to allow the non-primary purpose loss to be offset against the surplus for which tax exemption is disapplied by virtue of the existence of the non-primary purpose trading loss.

The University receives no similar exemption in respect of VAT. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT incurred on the purchase of tangible fixed assets is included in the cost of these assets.

As commercial organisations, the University's subsidiary companies are subject to corporation tax and VAT.

12. Liquid Resources

Liquid resources include sums on short-term deposits with recognised banks and building societies.

13. Provisions

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

14. Treatment of Operating Leases

All operating lease payments are included in the Income and Expenditure Account in the period to which the payment relates. Future liabilities under such operating leases are disclosed as a financial commitment in the accounts.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

15. Prior Year Adjustment

The prior year adjustment relates to changes in the accounting for charitable donations in accordance with the revised guidance as issued in the Statement of Recommended Practice: Accounting for Further and Higher Education, effective from 1 August 2007. Specifically, this has included the reclassification of donated assets from the revaluation reserve to deferred capital grants and the reclassification of some gifts and donations, previously reported as specific endowments, to income or reserves as appropriate.

The reclassification of donated assets to deferred capital grants has led to an increase in other income during the year of £12,000 (2006/07: £18,000). The reclassification of gifts and donations from specific endowments to other income has led to an increase in other income during the year of £46,000 (2006/07: £37,000) and an increase in receipts in advance of £1,000 (2006/07: £4,000). Transfers in respect of specific endowments have reduced by £45,000 (2006/07: £37,000). Overall these reclassifications have increased the consolidated surplus by £13,000 (2006/07: £18,000).

Specific endowments at a cost of £146,000 at 1 August 2007 have been reclassified as £141,000 general reserves and £5,000 receipts in advance. The corresponding endowment assets stated at market value have reduced by £145,000 and have been transferred into the current asset pool of investments. As the previously stated market value of the portfolio of current asset investments exceeded cost, the unrealised loss of £1,000 has been netted against the overall unrealised gains. As a result, current asset investments have increased by £146,000 and total investments have increased by £1,000. Donated assets at this date included within the revaluation reserve with a net book value of £15,000 have been reclassified as deferred capital grants.

The full impact of the prior year adjustment on the University's consolidated reserves and endowments can be seen at the foot of the Statement of Consolidated Total Recognised Gains and Losses. Further analysis of the prior year adjustment on investments, deferred capital grants, endowments, the revaluation reserve and the general reserve is shown in the respective notes to the accounts.

NOTES TO THE ACCOUNTS

1. FUNDING COUNCIL GRANTS

	2007/08 £000	2006/07 £000
Recurrent Grant (Higher Education Funding Council)	50,913	46,638
Specific Grants		
Joint Information Systems Committee (JISC)	1,326	903
All Other Grants	1,644	1,456
Deferred Capital Grants Released		
Buildings (Note 18)	1,255	1,060
Equipment (Note 18)	<u>187</u>	<u>338</u>
	<u>55,325</u>	<u>50,395</u>

2. TUITION FEES AND EDUCATION CONTRACTS

	2007/08 £000	2006/07 £000
Full-time Students	25,654	18,463
Full-time Students Charged Overseas Fees	14,582	13,426
Part-time Fees	2,685	2,272
Research Training Support Grants	451	407
Short Course Fees	<u>549</u>	<u>316</u>
	<u>43,921</u>	<u>34,884</u>

3. RESEARCH GRANTS AND CONTRACTS

	2007/08 £000	2006/07 £000
Research Councils	6,416	5,820
UK Based Charities	2,110	1,753
UK Industry	248	260
European Commission	1,118	1,135
Other Grants and Contracts	<u>3,140</u>	<u>4,108</u>
	<u>13,032</u>	<u>13,076</u>

4. OTHER INCOME

	2007/08 £000	Restated 2006/07 £000
Residences, Catering and Conferences	20,397	17,072
Other Income-generating Activities	2,278	2,310
Other Grant Income	1,294	1,174
Other Income	<u>7,834</u>	<u>7,594</u>
	<u>31,803</u>	<u>28,150</u>

NOTES TO THE ACCOUNTS

5. ENDOWMENT AND INVESTMENT INCOME

	2007/08	Restated 2006/07
	£000	£000
Income from Expendable Endowment Assets (Note 19)	128	139
Income from Permanent Endowment Assets (Note 19)	44	42
Other Investment Income	134	144
Other Interest Receivable	<u>958</u>	<u>826</u>
	<u><u>1,264</u></u>	<u><u>1,151</u></u>

6. STAFF COSTS

The average number of persons (including senior post holders) employed by the University during the year expressed as full time equivalents was:

	2007/08 Avge FTE No.	2006/07 Avge FTE No.
Academic Staff	614	564
Research Staff	139	147
Academic Related Staff	374	310
Clerical Staff	426	442
Manual and Ancillary	308	301
Technical	<u>88</u>	<u>82</u>
	<u><u>1,949</u></u>	<u><u>1,846</u></u>

The above figures exclude 333 FTE (2006/07: 349 FTE) in relation to employees classified as casual workers that are paid by timesheet. This figure includes post-graduate students who assist lecturers by providing part-time teaching to students.

	2007/08 £000	2006/07 £000
Staff Costs for the above persons:		
Wages and Salaries	69,029	61,950
Social Security Costs	5,368	4,990
Other Pension Costs (Note 28)	8,307	7,473
Exceptional Restructuring Costs	<u>645</u>	<u>300</u>
	<u><u>83,349</u></u>	<u><u>74,713</u></u>

The Exceptional Restructuring Costs relate entirely to early retirements and voluntary severance arrangements.

NOTES TO THE ACCOUNTS

6. STAFF COSTS (continued)

	2007/08 £000	2006/07 £000
Staff Costs by Department:		
Academic Departments	44,815	40,067
Academic Services	5,816	5,102
Research Grants and Contracts	6,554	6,078
Administration	14,149	12,569
Catering and Residences	6,664	6,036
Premises	3,614	3,398
Other	<u>1,092</u>	<u>1,163</u>
Sub-total	82,704	74,413
Exceptional Restructuring Costs	<u>645</u>	<u>300</u>
Total	<u>83,349</u>	<u>74,713</u>
Emoluments of the Vice-Chancellor:		
	£000	£000
Salary	188	199
Pension	<u>26</u>	<u>28</u>
Total Emoluments for the Year	<u>214</u>	<u>227</u>

The emoluments of the Vice-Chancellor are determined by the Remuneration Committee which takes into account performance during the year and data from comparable institutions. The emoluments are shown on the same basis as that for higher paid staff. Prior to April 2006, the University's pension contributions to USS were paid at the same rate as for other academic staff subject to restrictions imposed by the statutory earnings cap. From April 2006, this cap was removed and contributions have been paid at the normal rate.

Remuneration of other Higher Paid Staff, excluding employer's pension contributions:

	No.	No.
£100,000 - £109,999	2	1
£110,000 - £119,999	1	-
£120,000 - £129,999	<u>1</u>	<u>-</u>

There were no payments made to former Higher Paid Staff during the year (2006/07: £Nil) for compensation for loss of office.

NOTES TO THE ACCOUNTS

7. OTHER OPERATING EXPENSES

	2007/08 £000	2006/07 £000
Academic Departments	12,205	11,061
Academic Services	3,373	2,851
Research Grants and Contracts	3,786	4,583
Administration (including Bursary Payments)	10,182	7,727
Catering and Residences	5,466	4,506
Premises	6,729	6,133
Other Expenses	<u>1,680</u>	<u>1,250</u>
	<u>43,421</u>	<u>38,111</u>

Other Operating Expenses include:

Auditors' Remuneration	41	39
Auditors' Remuneration in Respect of Non-Audit Services	26	31
Rents Paid on Buildings (Operating Leases)	<u>385</u>	<u>661</u>
	<u>452</u>	<u>731</u>

8. INTEREST PAYABLE

	2007/08 £000	2006/07 £000
On Bank Loans repayable wholly in more than five years	4,151	4,325
FRS17 Finance Costs	6	5
Other Interest Payable	<u>1</u>	<u>-</u>
	<u>4,158</u>	<u>4,330</u>

9. TAXATION

	2007/08 £000	2006/07 £000
UK Corporation Tax payable on the profits of the University and subsidiary companies	<u>Nil</u>	<u>Nil</u>

10. SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR

The Surplus on Continuing Operations for the Year is made up as follows:

	2007/08 £000	Restated 2006/07 £000
University Surplus for the Year	5,692	2,804
Surplus generated by subsidiary companies	<u>-</u>	<u>-</u>
	<u>5,692</u>	<u>2,804</u>

Details of the University's subsidiary companies can be found in Note 12.

NOTES TO THE ACCOUNTS

11. TANGIBLE FIXED ASSETS

	Consolidated and University			
	Freehold Land and Buildings £000	Assets Under Construction £000	Equipment £000	Total £000
Cost or Valuation				
At 1 August 2007	171,560	3,831	29,790	205,181
Additions	8,677	-	3,113	11,790
Buildings Under Construction	-	5,818	-	5,818
Transfer Buildings Under Construction	3,231	(3,231)	-	-
Disposals	<u>-</u>	<u>-</u>	<u>(2,722)</u>	<u>(2,722)</u>
At 31 July 2008	<u>183,468</u>	<u>6,418</u>	<u>30,181</u>	<u>220,067</u>
Depreciation				
At 1 August 2007	33,771	-	24,782	58,553
Charge for the Year	6,104	-	2,713	8,817
Disposals	<u>-</u>	<u>-</u>	<u>(2,722)</u>	<u>(2,722)</u>
At 31 July 2008	<u>39,875</u>	<u>-</u>	<u>24,773</u>	<u>64,648</u>
Net Book Value				
At 31 July 2008	<u>143,593</u>	<u>6,418</u>	<u>5,408</u>	<u>155,419</u>
At 1 August 2007	<u>137,789</u>	<u>3,831</u>	<u>5,008</u>	<u>146,628</u>
Financed by Capital Grant	34,107	3,877	1,233	39,217
Other	<u>109,486</u>	<u>2,541</u>	<u>4,175</u>	<u>116,202</u>
Net Book Value at 31 July 2008	<u>143,593</u>	<u>6,418</u>	<u>5,408</u>	<u>155,419</u>

Land was acquired both by gift and purchase (£139,000) and is stated at valuation of £8,570,000 and not depreciated. The valuation was prepared by Grimley - J R Eve (Chartered Surveyors) on an open market existing use basis as at 3 May 1995. The land is included in the Balance Sheet at this valuation and the excess of the valuation over net book value (£139,000) has been taken to the Revaluation Reserve (Note 21).

Interest of £Nil on loans used to finance the construction of buildings has been capitalised in the year (Note 8). Total interest capitalised to date, included in the cost of Freehold Land and Buildings, amounted to £852,439 at 31 July 2008.

NOTES TO THE ACCOUNTS

12. FIXED ASSET INVESTMENTS

	Consolidated and University	
	2008	2007
	£000	£000
Loans	<u>-</u>	<u>1</u>

At 31 July 2008 the University held an interest in the following companies:

Name of Company	% Shareholding	Nature of Business
Canterbury Business School Limited	100	Dormant
Invicta Technology Investments Limited	100	Dormant
Kent Business School Limited	100	Dormant
Kent Enterprise Limited	100	Scientific and Industrial Consultancy
Kent Management School Limited	100	Dormant
Kent Property Services Limited	100	Dormant
Summer Academy Limited	100	Dormant

The financial year-end of all the subsidiaries is 31 July. All the companies are registered in England and Wales.

13. ENDOWMENT ASSETS AND CURRENT ASSET INVESTMENTS

	Consolidated and University	
	Restated	
	2008	2007
	£000	£000
Endowment Asset Investments:		
Cost Price	4,945	4,847
Market Value	<u>4,446</u>	<u>5,031</u>
Current Asset Investments:		
Cost Price	3,574	3,614
Market Value	<u>3,574</u>	<u>3,614</u>

NOTES TO THE ACCOUNTS

13. ENDOWMENT ASSETS AND CURRENT ASSET INVESTMENTS (continued)

	Consolidated and University	
	Restated	
	2008	2007
	£000	£000
Total Investment Assets:		
Balance at 1 August at Market Value as previously stated	8,645	8,353
Prior Year Adjustment (Note 15 of the Statement of Principal Accounting Policies)	<u>-</u>	<u>1</u>
Restated Balance at 1 August at Market Value	8,645	8,354
Additions	58	23
(Depreciation)/Appreciation	<u>(683)</u>	<u>268</u>
Investment Assets at Market Value	<u>8,020</u>	<u>8,645</u>
Investments comprise the following:		
Charities Investment Funds	7,838	8,521
Equities	35	35
Endowment-Linked Bank Deposit	147	89
Subsidiary and Associated Companies	<u>-</u>	<u>-</u>
	<u>8,020</u>	<u>8,645</u>

14. DEBTORS

	Consolidated		University	
	2008	2007	2008	2007
	£000	£000	£000	£000
Amounts falling due within one year:				
Debtors	4,397	5,345	4,373	5,279
Research Grants and Contracts	1,279	1,616	1,279	1,616
Owing by Subsidiaries	-	-	-	10
Prepayments and Accrued Income	<u>3,795</u>	<u>2,937</u>	<u>3,794</u>	<u>2,936</u>
	9,471	9,898	9,446	9,841
Amounts falling due after more than one year:				
Debtors	<u>42</u>	<u>99</u>	<u>-</u>	<u>-</u>
	<u>9,513</u>	<u>9,997</u>	<u>9,446</u>	<u>9,841</u>

NOTES TO THE ACCOUNTS

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated Restated		University Restated	
	2008	2007	2008	2007
	£000	£000	£000	£000
Bank Loans Due for Repayment	1,980	1,850	1,980	1,850
Payments Received in Advance: Funding Councils	1,341	1,641	1,341	1,641
Payments Received in Advance	8,292	6,708	8,292	6,708
Creditors and Accrued Liabilities	10,012	9,718	10,008	9,714
Taxation and Social Security	<u>2,990</u>	<u>2,725</u>	<u>2,990</u>	<u>2,725</u>
	<u>24,615</u>	<u>22,642</u>	<u>24,611</u>	<u>22,638</u>

The comparative figures have been restated following a reclassification of a premium received in advance which was previously included within deferred capital grants (see Note 18).

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated Restated		University Restated	
	2008	2007	2008	2007
	£000	£000	£000	£000
Mortgages secured on University Buildings	62,608	64,458	62,608	64,458
Less: Bank Loans repayable within one-year	(1,980)	(1,850)	(1,980)	(1,850)
Capital Grant Creditors	<u>1,217</u>	<u>-</u>	<u>1,217</u>	<u>-</u>
	61,845	62,608	61,845	62,608
Other Long-Term Liabilities	<u>2,115</u>	<u>2,305</u>	<u>1,995</u>	<u>2,090</u>
	<u>63,960</u>	<u>64,913</u>	<u>63,840</u>	<u>64,698</u>
Payable as follows:				
Between one and two years	2,334	2,290	2,214	2,075
Between two and five years	8,761	7,092	8,761	7,092
After five years	<u>52,865</u>	<u>55,531</u>	<u>52,865</u>	<u>55,531</u>
	<u>63,960</u>	<u>64,913</u>	<u>63,840</u>	<u>64,698</u>

The University has one variable rate loan of £750,000 that commenced on 3 February 2003 and is repayable by equal principal instalments until 6 February 2013. Interest is charged at the current LIBOR rate plus 0.75%. All other bank loans are at commercial fixed rates of between 5.31% and 8.75% and are repayable by instalments falling due between 1 August 2008 and 1 October 2030.

The comparative figures have been restated following a reclassification of a premium received in advance which was previously included within deferred capital grants (see Note 18).

NOTES TO THE ACCOUNTS

17. PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and University			
	Enhanced Pension Costs	Voluntary Severance/ Early Retirement	Pensions	Total
	£000	£000	£000	£000
Balance at 1 August 2007	92	45	400	537
Utilised in the Year	(82)	(40)	(160)	(282)
Transferred from Income and Expenditure Account	<u>311</u>	<u>145</u>	<u>504</u>	<u>960</u>
Balance at 31 July 2008	<u>321</u>	<u>150</u>	<u>744</u>	<u>1,215</u>

The Pensions Provision relates to amounts payable to part-time members of staff following decisions by the European Court of Justice, pending the outcome of UK Industrial Tribunal cases.

NOTES TO THE ACCOUNTS

18. DEFERRED CAPITAL GRANTS

	Funding Council £000	Consolidated and Restated Other Grants and Benefactions £000	University Restated Total £000
Balance at 1 August 2007 as previously stated			
Buildings	20,588	15,341	35,929
Equipment	<u>393</u>	<u>1,096</u>	<u>1,489</u>
	<u>20,981</u>	<u>16,437</u>	<u>37,418</u>
Balance Sheet Reclassification			
Buildings	-	(2,375)	(2,375)
Equipment	<u>-</u>	<u>15</u>	<u>15</u>
	<u>-</u>	<u>(2,360)</u>	<u>(2,360)</u>
Restated Balance at 1 August 2007			
Buildings	20,588	12,966	33,554
Equipment	<u>393</u>	<u>1,111</u>	<u>1,504</u>
	<u>20,981</u>	<u>14,077</u>	<u>35,058</u>
Cash Received			
Buildings	5,216	1,257	6,473
Equipment	<u>47</u>	<u>395</u>	<u>442</u>
	<u>5,263</u>	<u>1,652</u>	<u>6,915</u>
Released to Income and Expenditure			
Buildings	(1,255)	(755)	(2,010)
Equipment	<u>(187)</u>	<u>(523)</u>	<u>(710)</u>
	<u>(1,442)</u>	<u>(1,278)</u>	<u>(2,720)</u>
Balance at 31 July 2008			
Buildings	24,549	13,468	38,017
Equipment	<u>253</u>	<u>983</u>	<u>1,236</u>
	<u>24,802</u>	<u>14,451</u>	<u>39,253</u>

The opening balance at 1 August 2007 has been restated in respect of a prior year adjustment of £15,000 from general reserves in relation to donated assets received and a reclassification of a £2,375,000 premium received in advance to long-term (£2,090,000) and short-term (£285,000) creditors.

NOTES TO THE ACCOUNTS

19. ENDOWMENTS

	Consolidated and University		
	Specific £000	General £000	Total £000
Balance at 1 August 2007 at Market Value as previously stated	4,696	480	5,176
Prior Year Adjustments:			
Transferred to reserves	(139)	-	(139)
Transferred to deferred income	<u>(6)</u>	<u>-</u>	<u>(6)</u>
Restated Balance at 1 August 2007 at Market Value	<u>4,551</u>	<u>480</u>	<u>5,031</u>
Reclassified as:			
Unrestricted Permanent	-	480	480
Restricted Permanent	721	-	721
Restricted Expendable	<u>3,830</u>	<u>-</u>	<u>3,830</u>
	<u>4,551</u>	<u>480</u>	<u>5,031</u>

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	Total 2008 £000	Total 2007 £000
Restated Balances:						
Capital Value	480	508	988	3,513	4,501	4,244
Accumulated Income	<u>-</u>	<u>213</u>	<u>213</u>	<u>317</u>	<u>530</u>	<u>496</u>
Restated Balances at 1 August	480	721	1,201	3,830	5,031	4,740
New Endowments	-	22	22	168	190	107
Investment Income	16	28	44	128	172	181
Expenditure	(16)	(33)	(49)	(215)	(264)	(264)
(Decrease)/Increase in Market Value of Investments	<u>(62)</u>	<u>(84)</u>	<u>(146)</u>	<u>(537)</u>	<u>(683)</u>	<u>267</u>
Balance at 31 July	<u>418</u>	<u>654</u>	<u>1,072</u>	<u>3,374</u>	<u>4,446</u>	<u>5,031</u>
Represented by:						
Capital Value	418	446	864	2,999	3,863	4,501
Accumulated Income	<u>-</u>	<u>208</u>	<u>208</u>	<u>375</u>	<u>583</u>	<u>530</u>
	<u>418</u>	<u>654</u>	<u>1,072</u>	<u>3,374</u>	<u>4,446</u>	<u>5,031</u>

In previous years balances were analysed as general endowments and specific endowments. The revised headings above reflect the requirements of the revised SORP and the University's accounting policies.

NOTES TO THE ACCOUNTS

20. PENSION RESERVE

	Consolidated and University	
	2008 £000	2007 £000
Balance at 1 August	(325)	(520)
Actuarial (Loss)/Gain	(248)	95
Transferred to General Reserve	<u>99</u>	<u>100</u>
Balance at 31 July	<u>(474)</u>	<u>(325)</u>

21. REVALUATION RESERVE

	Consolidated and University	
	2008 £000	2007 £000
Net Revaluation Amount at 1 August	8,431	8,464
Prior Year Adjustment: Reclassification of Donated Assets Received	<u>-</u>	<u>(33)</u>
Restated Net Revaluation Amount at 1 August	8,431	8,431
Transferred to General Reserve	<u>-</u>	<u>-</u>
Net Revaluation Amount at 31 July	<u>8,431</u>	<u>8,431</u>

The Revaluation Reserve relates to land valued at £8,431,363.

22. MOVEMENT ON GENERAL RESERVES

	Consolidated University	
	£000	£000
Income and Expenditure Account Reserve:		
Balance at 1 August 2007 as previously stated	41,028	40,991
Prior Year Adjustment (Note 15 of the Statement of Principal Accounting Policies)	<u>141</u>	<u>141</u>
Restated Balance at 1 August 2007	41,169	41,132
Transfer of Reserves from Imperial College	21	21
Historical Cost Surplus after Depreciation of Assets at Cost, Disposal of Assets and Tax	5,692	5,692
Transfer from Pension Liability	<u>(99)</u>	<u>(99)</u>
Balance at 31 July 2008	<u>46,783</u>	<u>46,746</u>

NOTES TO THE ACCOUNTS

23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FROM OPERATING ACTIVITIES

	2007/08	Restated 2006/07
	£000	£000
Surplus before Tax	5,692	2,804
Depreciation (Note 11)	8,817	7,781
Deferred Capital Grants Released to Income (Note 18)	(2,720)	(2,719)
Interest and Endowments Receivable	(1,356)	(1,234)
Interest Payable	4,158	4,330
(Increase)/Decrease in Stocks	(19)	22
Decrease/(Increase) in Debtors, Prepayments and Research Grants	487	(161)
Increase in Creditors	3,136	2,377
Increase/(Decrease) in Provisions	678	(59)
Other Non-cash Movements	<u>(99)</u>	<u>(105)</u>
Net Cash Inflow from Operating Activities	<u>18,774</u>	<u>13,036</u>

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2007/08	Restated 2006/07
	£000	£000
Income from Endowments	172	181
Income from Investments and Short-Term Deposits	1,089	966
Interest Paid	<u>(4,198)</u>	<u>(4,322)</u>
Net Cash Outflow from Returns on Investments and Servicing of Finance	<u>(2,937)</u>	<u>(3,175)</u>

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2007/08	Restated 2006/07
	£000	£000
Purchase of Tangible Fixed Assets	(17,834)	(13,268)
Investment Assets Sold	1	1
Deferred Capital Grants Received	6,915	2,754
Endowments Received	190	107
Reserve Transfer from Imperial College	<u>21</u>	<u>57</u>
Net Cash Outflow for Capital Expenditure and Financial Investment	<u>(10,707)</u>	<u>(10,349)</u>

NOTES TO THE ACCOUNTS

26. MANAGEMENT OF LIQUID RESOURCES

	Restated 2007/08 2006/07 £000 £000	
Decrease/(Increase) in Current Asset Investments and Short-Term Deposits	<u>148</u>	<u>(228)</u>
Net Cash Inflow/(Outflow) from Management of Liquid Resources	<u>148</u>	<u>(228)</u>

27. ANALYSIS OF CHANGES IN NET DEBT

	Restated At 1 August 2007 £000	Cash Flows £000	Other Changes £000	At 31 July 2008 £000
Current Asset Investments	3,614	58	(98)	3,574
Short-Term Deposits	351	(206)	-	145
Cash at Bank and in Hand	<u>11,644</u>	<u>3,428</u>	<u>-</u>	<u>15,072</u>
	15,609	3,280	(98)	18,791
Debt due within one year:				
Bank Loan	(1,850)	1,850	(1,980)	(1,980)
Debt due after one year	<u>(62,608)</u>	<u>-</u>	<u>1,980</u>	<u>(60,628)</u>
	<u>(48,849)</u>	<u>5,130</u>	<u>(98)</u>	<u>(43,817)</u>

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Superannuation Arrangements of the University of London (SAUL). The University also participates in a Local Government Pension Fund.

The total pension cost for the University and its subsidiaries are:

	2007/08 £000	2006/07 £000
Contributions to USS	6,361	5,703
Contributions to SAUL	1,791	1,660
Contributions to Other Schemes	<u>155</u>	<u>110</u>
Total Pension Cost (Note 6)	<u>8,307</u>	<u>7,473</u>

The 2007/08 contributions to Other Schemes includes £100,333 (2006/07: £73,516) additional pension contributions payable to a local government pension scheme primarily in respect of past service performed. There is only one active member of the scheme employed by the University and no new members are admitted.

USS PENSION SCHEME

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited (USS Ltd). 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 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 FRS17 'Retirement Benefits', accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the Income and Expenditure Account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was as 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.

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

Standard Mortality tables were used as follows:

Pre-retirement mortality	PA92 rated down 3 years
Post retirement mortality members	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

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit 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 FRS17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

Since 31 March 2005 the financial security of the scheme has 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 the volatility of the investment returns on the schemes assets in the period since 31 March 2005 compared to the returns allowed for in the funding assumptions and also the changing gilt yields, which are used to place a value of 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 FRS17 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 institution 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 the institution's 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 £2.2bn
Rate of pension increases	Increase/Decrease by 0.5%	Increase/Decrease by £1.7bn
Rate of salary growth	Increase/Decrease by 0.5%	Increase/Decrease by £0.5bn
Rate of mortality	More prudent assumption (mortality used at last actuarial valuation, rated down by a further year)	Increase by £0.8bn

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

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

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

The next formal triennial actuarial valuation was due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation. This report is due to be made available later in the year.

The USS pension cost for the University was £6,360,591 (2006/07: £5,702,835). This includes £541,477 (2007: £489,848) outstanding contributions at the balance sheet date.

SAUL PENSION SCHEME

The University participates in a centralised defined benefit scheme for all qualified employees with the assets held in separate Trustee-administered funds. The University has now adopted FRS17 for accounting for pension costs. It is not possible to identify the University's share of the underlying assets and liabilities of SAUL. Therefore contributions are accounted for as if SAUL were a defined contribution scheme and pension costs are based on the amounts actually paid (i.e. cash amounts) in accordance with paragraphs 8-12 of FRS17.

The scheme is subject to triennial valuation by professionally qualified and independent actuaries. The last available valuation was carried out as at 31 March 2005 using the projected unit credit method in which the actuarial liability makes allowance for projected earnings. The following assumptions were used to assess the past service funding position and future service liabilities:

Valuation Method	Projected Unit	
	Past Service	Future Service
Investment return on liabilities		
- before retirement	5.5% pa	6.5% pa
- after retirement	4.5% pa	4.5% pa
Salary growth*	4.15% pa	4.15% pa
Pension increases	2.65% pa	2.65% pa

* excluding an allowance for promotion increases.

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

The actuarial valuation applies to the scheme as a whole and does not identify surpluses or deficits applicable to individual Employers. As a whole, the market value of the scheme's assets was £982 million representing 93% of the liability for benefits after allowing for expected future increases in salaries.

Following the two informal funding reviews at 31 March 2004 and 31 March 2003, the Trustee of SAUL has undertaken a significant consultation exercise with Employers and representatives of Members regarding the level of contributions payable to SAUL.

Following this consultation, the Employers have agreed to contribute 13.0% of salaries from August 2006 (previously 10.5% of salaries), an increase of 2.5% of salaries. Member contributions also increased by 1.0% of salaries to 6.0% of salaries with effect from the same date.

Employers who have recently joined SAUL ("New Employers") and certain employee groups (as agreed by the Trustee of SAUL), pay 19.2% of salaries per annum from August 2006 until the second actuarial valuation after entry (or some other period as agreed with the Trustee).

A comparison of SAUL's assets and liabilities calculated using assumptions consistent with FRS17 revealed the Scheme to be broadly balanced at the last formal valuation date (31 March 2005). The next formal actuarial valuation was due as at 31 March 2008 when the above rates will be reviewed. A report on this valuation will be made available by 31 March 2009.

The SAUL pension cost for the University and its subsidiary companies was £1,789,539 (2006/07: £1,659,549). This includes £163,188 (2007: £148,511) outstanding contributions at the balance sheet date.

LOCAL GOVERNMENT PENSION FUND

The University also participates in a defined benefit local government pension fund, in which there is only one active member currently employed by the University and no new members are admitted.

The fair values of the University's share of the assets in the fund at the balance sheet date can be analysed as follows:

	Long-Term Expected Return at 31 July 2008 % pa	Assets at 31 July 2008 £000	Long-Term Expected Return at 31 July 2007 % pa	Assets at 31 July 2007 £000
Equities	7.8	685	8.0	792
Bonds	5.7	176	5.2	125
Property	5.7	104	6.0	114
Cash	<u>4.8</u>	<u>73</u>	<u>5.1</u>	<u>97</u>
Total	<u>7.0</u>	<u>1,038</u>	<u>7.2</u>	<u>1,128</u>

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

The main actuarial assumptions at the balance sheet date were as follows:

	31 July 2008 % pa	31 July 2007 % pa
Inflation/Pension increase rate	3.8	3.3
Salary increase rate	5.3	4.8
Expected return on assets	7.0	7.2
Discount rate	6.7	5.8

Life expectancy assumptions are based on the PFA92 and PMA92 tables, projected to calendar year 2033 for non pensioners and 2017 for pensioners. Based on this, the average life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	21.5 years	24.4 years
Future pensioners	22.6 years	25.5 years

The fair value of the fund assets, the present value of the fund liabilities and the resulting deficit on the fund as recognised in the Balance Sheet are as follows:

	2008 £000	2007 £000
Fair Value of Fund Assets	1,038	1,129
Present Value of Fund Liabilities	(1,454)	(1,396)
Present Value of Unfunded Liabilities	<u>(58)</u>	<u>(58)</u>
Net Pension Liability	<u>(474)</u>	<u>(325)</u>

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

The movement in the deficit during the year can be analysed as follows:

	2007/08 £000	2006/07 £000
Defined Benefit Obligation at 1 August	(1,454)	(1,535)
Current Service Cost	(7)	(9)
Interest Cost	(82)	(76)
Contributions by Members	(2)	(2)
Actuarial (Losses)/Gains	(47)	70
Past Service Costs	(6)	-
Estimated Unfunded Benefits Paid	5	4
Estimated Benefits Paid	<u>81</u>	<u>94</u>
Defined Benefit Obligation at 31 July	<u>(1,512)</u>	<u>(1,454)</u>
Fair Value of Employer's Assets at 1 August	1,129	1,015
Expected Return on Assets	82	71
Contributions by Members	2	2
Contributions by the University	107	110
Contributions in respect of Unfunded Benefits	5	4
Actuarial (Losses)/Gains	(201)	25
Unfunded Benefits Paid	(5)	(4)
Benefits Paid	<u>(81)</u>	<u>(94)</u>
Fair Value of Employer's Assets at 31 July	<u>1,038</u>	<u>1,129</u>
Net Pension Fund Deficit at 31 July	<u>(474)</u>	<u>(325)</u>

NOTES TO THE ACCOUNTS

28. PENSION SCHEMES (continued)

The amounts recognised in the Income and Expenditure Account in the current year can be analysed as follows:

	2007/08		2006/07	
	£000	% of pay	£000	% of pay
Current Service Cost	7	23.9%	9	26.5%
Interest Cost	82	264.5%	76	233.0%
Expected Return on Employer Assets	(82)	(264.5%)	(71)	(217.7%)
Past Service Cost	<u>6</u>	<u>19.4%</u>	<u>-</u>	<u>-</u>
	<u>13</u>	<u>43.3%</u>	<u>14</u>	<u>41.8%</u>
Actual Return on Fund Assets	(<u>111</u>)		<u>96</u>	

Amounts for the current and previous four years are as follows:

	2007/08	2006/07	2005/06	2004/05	2003/04
	£000	£000	£000	£000	£000
Fair Value of Employer Assets	1,038	1,129	1,015	876	-
Present Value of Defined Benefit Obligation	(1,512)	(1,454)	(1,535)	(1,512)	-
Deficit	(474)	(325)	(520)	(636)	-
Experience (Losses)/Gains on Assets	(201)	25	76	99	-
Experience (Losses)/Gains on Liabilities	(62)	1	(2)	4	-

Recognised in the Statement of Consolidated Total Recognised Gains and Losses (STRGL)

	2007/08	2006/07	2005/06	2004/05	2003/04
	£000	£000	£000	£000	£000
Actuarial (Losses)/Gains	(248)	95	40	(15)	-
Increase/(Decrease) in Irrecoverable Surplus from membership fall and other factors	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Actuarial (Losses)/Gains Recognised in STRGL	(<u>248</u>)	<u>95</u>	<u>40</u>	(<u>15</u>)	<u>-</u>
Cumulative Actuarial (Losses)/Gains	(<u>128</u>)	<u>120</u>	<u>25</u>	(<u>15</u>)	<u>-</u>

NOTES TO THE ACCOUNTS

29. CAPITAL COMMITMENTS

	Consolidated and University	
	2008	2007
	£000	£000
Contractual Commitments at 31 July	<u>4,023</u>	<u>3,390</u>

30. FINANCIAL COMMITMENTS

At 31 July, there were annual commitments under non-cancellable operating leases as follows:

	Consolidated and University	
	2008	2007
	£000	£000
Land and Buildings:		
Expiring within one year	111	-
Expiring within two and five years inclusive	251	251
Expiring in over five years	<u>-</u>	<u>124</u>
	<u>362</u>	<u>375</u>
Other:		
Expiring within one year	6	4
Expiring within two and five years inclusive	<u>-</u>	<u>6</u>
	<u>6</u>	<u>10</u>

31. CONTINGENT LIABILITIES

CROSS-GUARANTEES

On the 23 June 1993 the University entered into a cross guarantee for the indebtedness of Kent Enterprise Limited in favour of National Westminster Bank Plc.

UM ASSOCIATION (SPECIAL RISKS) LIMITED

The University is a member of UM Association (Special Risks) Limited, a company limited by guarantee formed as a mutual association to financially assist its members in respect of certain terrorism risks. The rules of the Association allow the directors of the company to make discretionary awards to members who suffer uninsured losses arising from a terrorism incident, but also allow the directors to seek a supplementary contribution from all members on a pro rata basis if additional resources are required to meet the discretionary awards. Up to 31 July 2008, no supplementary contribution has been requested from the University during the lifetime of its membership of the Association.

NOTES TO THE ACCOUNTS

32. ACCESS FUNDS

	2007/08 £000	2006/07 £000
Balance Unspent at 1 August	12	57
Funding Council Grants	488	534
Interest earned	<u>8</u>	<u>8</u>
	496	542
Disbursed to students	(490)	(570)
Audit fees	(1)	(1)
Access administration costs	<u>(13)</u>	<u>(16)</u>
Balance Unspent at 31 July	<u><u>4</u></u>	<u><u>12</u></u>

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

33. RELATED PARTY TRANSACTIONS

KENT MAN LIMITED

The University is one of five partners in Kent MAN Limited, a company formed on 1 April 2002 and limited by guarantee, maintaining micro-wave radio links between Higher Education Institutions in Kent.

SUBSIDIARY COMPANIES

All related party transactions are between the University of Kent and its wholly owned subsidiaries. As such the University has taken advantage of the specific exemption given under Financial Reporting Standard 8 and not disclosed these transactions.

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Kent

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