

Financial Statements

For the year ended 31 July 2010

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President's foreword

The Council of the University, whose members are listed on the following page, is the governing body and is responsible for the strategic leadership of the University as well as its financial stewardship.

The University operates in a challenging and competitive environment. It needs to marshal its resources carefully in order to sustain its mission in teaching, research and enterprise. Much has been achieved in recent years, and the University rightly remains ambitious of the experience it can provide to its students, the environment which it can provide to support its academic staff, and the value and relevance of the contribution it can make to the community at large.

Our financial performance in the last year reflects a number of pressures, and we recognise the need to examine our cost structure with rigour. The funding model for universities is currently the object of some considerable debate and we look forward to the outstanding issues being resolved in the coming months. It is already apparent, however, that we will need to be even more focused on delivering value for money to the constituencies we serve and we should embrace this in a positive spirit. While a number of difficult decisions may be ahead, we believe these will be outweighed by the opportunities available to the University to build on existing areas of strength in the coming years and develop new ones. Overall, we are determined to remain one of the leading research orientated universities in the UK. Given the scale and reach of our recent and current investment programme, we are confident of achieving this.

The University is well served by its Council members, and I would like to thank them for their contributions in the last year.

Christopher Fisher

President of the Council

26 November 2010

The Council

Class 1. Ex officio

The Vice-Chancellor ¹

The Treasurer (Dr P. T. Warry, MA, Oxford; LLB, London; PhD, Reading; CEng, FEng, FIET, FIMechE, FCMA)¹

The Deputy Vice-Chancellor

The Pro-Vice-Chancellors

Class 2. Appointed by Public Authorities

One by Reading Borough Council:

Councillor P.M. Jones, BA (*until 31 May 2010*)

Councillor F. Pugh (*from 1 June 2010*)

One by Wokingham Borough Council:

Councillor P. Swaddle, BA

Class 3. Fourteen persons not being employees or registered students of the University appointed by the Council

Mr T. Bartlam, BA, MA, FCA

Mr R. Buller, BSc¹

Mr R. Dwyer, BSc, FCIPD

Dr P.A. Erskine, BA, Hon LLD (*from 1 August 2010*)

Mr R.E.R. Evans, BSc, FRICS

Mr J.D. Fishburn, BA²

Mr C.C. Fisher, BA, MPP (President of the Council)^{1,3}

Professor S. Hawker, CB, MA, FIET

Dr J.C.F. Hayward, OBE, MA, DCL¹

Mr H.W.A. Palmer, QC, MA

Dr A.P. Reed, BSc, PhD

Mrs J.M. Scott, BSc, CEng, CITP, FBCS (Vice-President of the Council)^{1,4}

Mr S.P. Sherman, FCA (*from 1 August 2010*)

Sir John Sunderland, MA

Mr P. Walsh (*until 31 July 2010*)

Dr J.D. Wilkins, BSc, PhD (*until 31 July 2010*)

Class 4. The Deans of the Faculties

Dean of the Faculty of Arts and Humanities

Dean of the Faculty of Social Sciences

Dean of the Henley Business School

Dean of the Faculty of Life Sciences

Dean of the Faculty of Science

Class 5. One member of the Senate not being a registered student of the University appointed by the Senate

Professor P.M. Leopold, LLB, LLM (*until 31 July 2010*)

Class 6. One member of the Academic Staff of the University elected from among their own number in such a manner and under such conditions as are prescribed by the Council for the election of members of the Academic Staff to the Senate under Statute XVI

Dr I. Mueller-Harvey, Diplchem, MSc, PhD, CChem, FRSC

Class 7. One member of the staff of the University not being a member of the Academic Staff elected in such a manner as the Council shall from time to time determine

Mrs H.M. Dominick

Class 8. One member of Convocation not being an employee or registered student of the University appointed as provided in Ordinances

Dr A.M. Hodge, MBE; BSc, PhD

Class 9. Two officers of the Students' Union and two alternates as determined from time to time by the Council after consultation with the Students' Union

Ms J. Lazarczyk (The President of the Students' Union)

Mr T. Gilchrist (The Vice-President (Academic Affairs) of the Students' Union)

Secretary: The University Secretary

1 Member of Remuneration Committee

2 Chair of Audit Committee

3 Chair of Appointments, Remuneration and Strategy and Finance Committees

4 Chair of Support Services Policy Committee

Officers of the University in 2009–2010

Chancellor

Sir John Madejski OBE DL, Hon DLitt, Reading

Vice-Chancellor

Professor Gordon Marshall, CBE; BA, Stirling; DPhil, Oxford; FBA; AcSS

President of the Council

C.C. Fisher, BA, Reading; MPP, Harvard

Vice-President of the Council

Mrs J.M. Scott, BSc, St Andrews; CEng, CITP, FBCS

Treasurer

Dr P.T. Warry, MA, Oxford; LLB, London; PhD, Reading; CEng, FEng, FIET, FIMechE, FCMA

Deputy Vice-Chancellor

Professor T.A. Downes, BA, BCL, Oxford

Pro-Vice-Chancellors

Professor D.C. Berry, BSc, CNA; DPhil, Oxford; CPsychol, AFBPsS, AcSS
(until 31 July 2010)

Professor R.L. Robson, BA, York; PhD, Wales

Professor C.M. Williams, BSc, PhD, London

Professor S.J. Mithen, BA, Sheffield; MSc, York; PhD, Cambridge; FSA,
FSA(Scot), FBA (from 1 August 2010)

Deans of the Faculties

Arts and Humanities

Professor S.F. Walker, BA, PhD, Reading

Social Sciences

Professor D.C. Berry, BSc, CNA; DPhil, Oxford; CPsychol, AFBPsS, AcSS
(from 1 August 2010)

Professor J. Pemberton, MA, PhD, Cambridge (until 31 July 2010)

Henley Business School

Professor J. Board, BA, PhD, Newcastle (from 1 October 2010)

Professor C.J. Bones MA, Aberdeen; CCMI, FCIPD, FRSA
(until 30 September 2010)

Life Sciences

Professor R.H. Ellis, BSc, Wales; PhD, Reading; CBiol, FIBiol

Science

Professor G. Brooks BPharm, PhD, London; MRPharmS, FAHA
(from 1 August 2010)

Professor S.J. Mithen, BA, Sheffield; MSc, York; PhD, Cambridge; FSA,
FSA(Scot), FBA (until 31 July 2010)

Heads of Directorate

University Secretary and Director of Governance

K.N. Hodgson, BA, Leicester

Director of Academic Services

R.J. Messer, BA, Oxford; PhD, Birmingham

Director of External Affairs

S.P.R. Horan, LLB, Southampton; Barrister at Law

Director of Facilities Management

C. Robbins, BSc, Portsmouth; FRICS

Director of Finance and Corporate Services

D.C.L. Savage, BA, London; FCCA

Director of Student Services

J.A. Gandhi, LLB, Exeter; BCL, Oxford

Auditors

KPMG LLP

Operating and financial review

Introduction

This report presents the Group's results and activities for the year to 31 July 2010.

Scope of the financial statements

The Group financial statements include the results of the University of Reading, the Research Endowment Trust, the National Institute for Research in Dairying Trust, the Hugh Sinclair Trust, the Beckett International Foundation, the Greenlands Trust, Henley Management College (1945) Limited, University of Reading (Greenlands) Limited, University of Reading Science and Technology Centre Limited, Reading Real Estate Foundation, Henley Management College (South Africa) Section 21A and Henley Business School (Hong Kong). These statements exclude the results of the University's other subsidiary companies on the grounds of immateriality.

Statement on public benefit

The University is an independent corporation with charitable status established by Royal Charter granted in 1926. Its objects, powers and framework of governance are defined in the Charter and supporting Statutes. It is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010. It is not required to be registered with the Charity Commission but is however subject to the Charity Commission's regulatory powers which are monitored by the Higher Education Funding Council for England (HEFCE). The University's Council have due regard to the Charity Commission's public benefit guidance.

All charities must have charitable purposes and apply them for the public benefit. The University's core charitable purposes are the delivery of higher education teaching and research. The University seeks to achieve excellent standards in these areas which it believes are to the benefit of the local, national and international communities. This report includes the key achievements and developments in these areas during the year. The University's charitable activities extend beyond the core purposes of teaching and research and its achievements in these areas are also included within this report.

A key part of the University's strategy in ensuring it delivers its core purposes for the public benefit lies in its policy of equal opportunities for all. The University aims to encourage people of all backgrounds to participate in and benefit from its teaching, research and other activities.

Overview of the financial position of the University at 31 July 2010

The Group's consolidated retained surplus after tax in the year to 31 July 2010 was £0.4m (2009: £19.6m). Total income for the year was £222m (2009: £225m).

The University is nearing the end of its existing capital investment programme. The financing for this programme comes from a mixture of sources and it is likely that further debt funding will be sought in order to complete the programme on schedule in 2012/13. At the same time, the University has almost completed an estates critical maintenance programme which will finish in 2010/11. After this the University plans to increase the level of its operating surplus so as to provide internally generated funds for future capital investment.

Economic context

The UK economy continues to go through a difficult period. The higher education sector is undergoing significant challenges with constraints on funding and other income resulting in the need to both diversify income sources and reduce costs. The University is well advanced with work to reshape its academic activities to ensure they are well placed for the years ahead. The University will now need to consider what further measures are required in the light of the 2010 Comprehensive Spending Review and the government's response to the Browne Review on higher education funding.

Key developments in the year

Constantly striving to provide an excellent education for students while building on its position as one of the primary research institutions in the UK, the University is unashamedly proud of its achievements. This report gives details of the key developments over the course of this financial year.

The University is responding to the prevailing financial and political climate with specific measures to reshape the University. The University has set itself the initial task of reducing its academic and non-academic cost base by around £12m by the end of 2011/12 and is on course to achieve this. The University will make savings while ensuring that it remains research intensive, committed to excellence in teaching and broadly functioning with a presence in arts and humanities, social science, business, science and life sciences. It will aim to enhance its competitive advantage and avoid short-term actions which will not be in its long term interests. A Reshaping Project Board has been established to oversee the changes required.

It is now two years since the University's merger with Henley Management College and full integration is now complete. Accommodation at Greenlands has been updated and new learning facilities have been developed. The Henley Business School brand has a strong visual identity. 'Themed MBA' programmes have been developed in Construction Management, Finance and Real Estate.

On 1 August 2009 the University became the sole member of Reading Real Estate Foundation (RREF), a charitable company established for the advancement of education in the art and science of real estate at the University of Reading. RREF generates annual income of approximately £160k.

The University's capital programme has continued during the year, with work on new halls of residence, the Central Catering Production Unit, a new building for the School of Film, Theatre & Television, and refurbishments at Greenlands. During the year the University spent £86.8m on its capital investment programme, bringing to £265.6m the capital investment over the five years to July 2010.

The relocation of the Institute of Education from the Bulmershe Court campus to the London Road campus has now commenced. This will be complete by 2011 and includes extensive refurbishment of the London Road campus.

The University of Reading is currently working with Kier Property to develop a new business facility on the Whiteknights campus which will offer 55,000 square feet of high quality space for use by innovative and technology-based companies. The University has a strong record in collaborating with such businesses, helping them harness the research expertise and business development skills at the University and providing them with the support, facilities and space to grow. This new facility will significantly enhance the University's capacity in this regard. The facility, which will open in Spring 2011, builds on the already successful Science and Technology Centre and its existing small business incubator facilities. In March the University received planning permission for an up to 800,000 square feet Science and Innovation Park on land adjacent to the M4 to the south of Reading. Work is expected to start on this within the next three years.

Key achievements

The University has once again been ranked as one of the world's top 200 universities re-affirming the University's standing in the premier league of world universities.

The Department of Archaeology received the distinguished Queen's Anniversary Prize for Higher and Further Education in recognition of the department's world-class achievement and excellence. The department is recognised worldwide for its ground-breaking research, enterprise and teaching.

Henley Business School performed highly in the 2010 Economist Full-time MBA rankings. The Henley MBA full-time programme was ranked number 1 in the world for the quality of its students. In terms of overall ranking it was placed 2nd in the UK, 5th in Europe and 18th in the world.

In the Financial Times Executive Education rankings published in May, Henley Business School was ranked 33rd world-wide in a composite ranking for open and custom executive education programmes. The open executive programmes ranked it 4th in the UK and 10th in the world for growth. In custom programmes HBS ranked 15th in the world for breadth and depth of international clients.

The University's Institute of Education was named as the leading location in the UK to train primary school teachers, according to the 2009 Good Teacher Training Guide.

The University of Reading Rowing Club (RUBC) achieved magnificent results in the British Indoor Rowing Championships. RUBC returned home with eight medals, winning four gold and four bronze. RUBC ended the

year with a superb team performance at the internationally renowned Henley Royal Regatta.

The University's estate

The University's Whiteknights Development Plan 2008–2018 creates a vision of a high quality environment that will facilitate student recruitment and the retention of staff, providing the conditions in which teaching and research, students and staff, can flourish. The infrastructure developments are designed to enhance the University's academic activity and ensure that it continues to be regarded as one of the leading universities in the UK and internationally. The Plan is designed to guide development over the next 25–30 years. Importantly, during the year the University completed the construction of Phase 1 of the Halls Redevelopment Project providing over 960 new study bedrooms.

In addition to the new developments at Whiteknights, at Greenlands the University completed the refurbishment of the Thames Court accommodation to support Henley Business School's executive education activities, and embarked upon the creation of an MBA teaching and study suite.

Teaching and learning

As an established and highly successful research-led UK university, the University aspires to produce graduates who have developed skills and knowledge of life-long value, have the confidence and enthusiasm to fulfil their personal ambitions, and seek to make a difference in the world in which they live. These goals are pursued by providing a stimulating and challenging educational experience, which is responsive to the needs of students and society at large, within a welcoming and supportive learning and teaching community.

Applications from home and EU students for undergraduate courses rose by 3% this year. Applications from overseas students rose by 10%.

Around 5,600 students commenced their studies at the University during the year, with the University receiving around six times this number of applications.

The University offers support to over 3,000 students through its access bursary scheme. The University's policy is to recruit the most able students, regardless of financial background. The University aims to offer programmes of study that are attractive to a diverse range of potential students, have fair and transparent admissions policies, and provide financial support to low income students. It supports the learning and many other needs of all students during their studies, including careers education and guidance, so that they can pursue their employment aspirations and become influencers of society in their turn. Students from state schools and colleges have grown to comprise 84%, and students from lower socio-economic groups have increased to 27% of the total undergraduate population.

Research

The University is highly regarded, nationally and internationally, for the quality of its research, and is committed to enhancing its position as a leading research university. Reading's particular research priorities and internationally acknowledged expertise extends across a broad range

of disciplines in the environmental, physical and life sciences, arts and humanities, business and social sciences.

Overall, research grant income was some £31.5m, from around 600 awards during the year. The University is always seeking to increase its share of research grant income including sharing good practice across Faculties.

The University is ranked in the top 20 most successful UK higher education institutions in securing grants from UK research councils.

The Design Innovation Research Centre (DIRC) was opened in January within the School of Construction Management and Engineering. The new research centre will create novel engineering solutions for designers of buildings and infrastructures in the digital age.

The Technologies for Sustainable Built Environments (TSBE) Centre opened in October with the aim of training 50 research engineers in sustainable built environments and building energy management. The research and training focuses on improving energy management in Britain's new and existing housing stock and investigating the built environment's impact on local and global climate.

Enterprise

The University is located at the heart of the Thames Valley cluster of established and developing high-technology and research led companies in a diverse range of fields. It is uniquely positioned to support and respond to their needs.

The University has taken advantage of its excellent track record in research and its location to build good relationships with business and to provide and develop commercial services. It has defined an Enterprise Strategy which focuses on enhancing research excellence, enriching the student experience, providing high quality services and promoting public service. The interaction between the corporate world and the academic researchers is a potent tool for the advancement of knowledge and is one which the University is actively pursuing and aims to extend further. The University's relationships with the corporate world also provide opportunities for academics to participate in cutting-edge commercial research and 'real-world' application.

As a world-class research institution, the University seeks actively to develop long-lasting relationships with commercial organisations. Many businesses are taking advantage of our expertise, knowledge and facilities through collaborative research, consultancy, Knowledge Transfer Partnerships, licensing of intellectual property, use of high-quality leading-edge equipment, business incubation services, managed office and lab space, and graduate recruitment and placement services. Staff are actively encouraged to work with business and to turn their own business ideas into reality through the formation of spin-out companies.

One of the University's spin-out companies, Whitfield Solar Limited, continues to make good progress both technically and commercially. The company has successfully proven its solar concentrator platform at test sites in Spain and now has one of the only commercially available roof top concentrator platforms on the market. During the year it received further funding of £2.7 million which will enable it to expand its workforce and build on existing commercial success in Spain through its subsidiary

company Whitfield Solar Europa SL. There are now plans to tap into a wealth of commercial opportunities, both in Europe and farther afield. The company has recently secured a large order to supply solar concentrators to Australia.

Another spin-out company, GradFutures Limited, provides a next-generation graduate recruitment website using the Destinations® careers management web content.

The Reading Real Estate Foundation (RREF), a charitable company controlled by the University of Reading, has expanded its network of companies that are members of its mentoring scheme which matches students studying real estate and planning with professionals working within the property industry. RREF currently has over 260 mentoring partnerships. Mentors are encouraged to offer expert advice and guidance to the students.

The University of Reading's Careers Advisory Service once again ran its successful Summer Enterprise Experience & Discovery scheme (SEED) which offers valuable paid summer work experience for students, as well as providing local companies and organisations with welcome additional resources. Companies, organisations and charities take on students for eight weeks over the summer to work on specific projects.

The University is one of the leading centres in the UK for developing and managing Knowledge Transfer Partnerships (KTPs). These programmes allow businesses of all sizes from a wide range of industries and sectors to access the expertise of academics and researchers in the University, helping them address issues in the development of commercial applications.

During the year, Professor Rachel McCrindle was awarded the 2010 Knowledge Transfer Partnership's (KTP) Academic Excellence Award, in recognition of her outstanding contribution to KTP. She has been a major supporter of KTP over the past 12 years and has either led or supervised a large number of projects throughout this period. Professor McCrindle was also awarded the Higher Education Academy Engineering Subject Centre's Teaching Award 2010, which recognises outstanding contributions to learning and teaching.

Giving something back to the local community

The University is keen to encourage participation by, and engagement with, the local community. It works with local schools in a variety of ways to encourage young people to enjoy learning and achieve their potential in a stimulating environment.

The University also works in partnership with Reading Voluntary Action to promote staff volunteering with local charities, schools and other voluntary organisations.

The Department of Film, Theatre and Television produced a short film for the Thames Valley Safe Drive Stay Alive road safety campaign, to increase awareness of road safety issues in young people.

A new law clinic for Reading, offering free professional legal advice, was launched as a joint initiative between the University of Reading's School of Law, legal firm Shoosmiths, East Reading advice centre CommuniCare and the charity LawWorks. The monthly free legal surgery provides a

service to those unable to pay for legal advice in areas such as consumer, debt, employment and landlord and tenant law.

Environmental policy

The University of Reading takes its environmental responsibilities seriously and aims to manage its operations in ways that are environmentally sustainable, economically feasible and socially responsible. The University is committed to achieving the highest standards of environmental performance, preventing pollution and minimising the impact of its operations. The University sets challenging targets to continually improve its performance and these are reviewed and updated annually. The University is actively seeking to reduce its consumption of materials and minimise waste. The University also monitors, measures and reports on its performance in relation to its impact on the environment.

The University has made significant progress on environmental issues during the year but recognises that further progress is required to meet its targets. Key achievements include:

- achieving Fairtrade status
- recycling 98% of Whiteknights Hall in the construction of the new Mackinder Hall
- reducing carbon emissions significantly
- recruiting 200 Environmental Champions on campus
- transport initiatives including a car club, car share, a cycle to work scheme, new bus routes and new bike racks
- a new food waste compactor at Greenlands which has reduced by 25% the amount of waste sent to landfill
- holding the University's first Green Week
- launching the Sustainability Matters and TravelWise newsletters

The University has set targets to further reduce its environmental impact. These include:

- reducing carbon emissions by 20% by 2013 from the 2005/06 baseline
- reducing energy and water consumption by 10% over 5 years from the 2008/09 baseline
- recycling 50% of its waste by 2011/12 (almost 40% of waste is currently recycled)
- ensuring new and refurbished buildings achieve a BREEAM rating (the international Environmental Assessment Method for buildings) of Very Good or better

The University has been accepted onto the Higher Education Carbon Management Programme developed by the Carbon Trust to help the sector tackle the threat of climate change and achieve significant reductions in energy costs.

Energy efficiency projects funded by Salix, which include projects such as the insulation and lagging of pipes and energy efficient lighting, are expected to deliver £70,000 of annual energy savings.

Human resources

The University aims to be an employer of choice, and it works hard to create a stimulating and supportive working environment where people can flourish, with opportunities for individual professional and personal development and career progression. The University rewards staff who demonstrate exceptional performance, leadership and innovation.

The University values its highly skilled and dedicated staff. Many of the University's academic staff members are acknowledged to be world-leading experts in their field, working at the cutting edge of their area of specialism.

The University actively engages with staff on a regular basis using a variety of methods including publications, the intranet, staff briefing meetings led by the Vice-Chancellor and the appointment of staff representatives to Council. The University also consults regularly with recognised trade unions to discuss issues affecting staff.

A comprehensive range of training programmes for staff are available, designed to develop management and leadership capability, as well as a wide range of practical skills that staff need for their day to day work.

The University's Facilities Management Directorate successfully gained corporate status as an Investor in People during the year. In order to achieve accreditation each department had to prove that it was planning its business well, communicating and involving their staff in daily work decisions, and encouraging individuals to develop in their roles. The University Library achieved Investor in People accreditation in 2003.

The School of Construction Management and Engineering was awarded a Silver Award by Athena SWAN. The awards recognise and celebrate good employment practice for women working in science, engineering and technology in higher education and research.

Health and safety

The University is committed to providing a healthy and safe environment for its students and staff. The Health & Safety Committee meet regularly and report annually to the Senior Management Board and to Council. The University has adopted the Health and Safety Management Profile (HASMAPP) system as the basis for a health and safety performance indicator. This system gives each grouping audited a grading against twelve performance indicators. Regular audits are carried out each year. The target is that all units will achieve Level 2 performance across all indicators by 2011.

Starting in 2010/11, the induction training programme for new Heads of School will include health and safety management responsibilities and practice.

Safety initiatives during the year include an IOSH Managing Safety course, the development of an online fire training facility, and building managers were appointed for all buildings.

Communication

The University values and invests in communication with staff, students and the local community, using discussions, electronic and paper-based

publications and forums. The University values the contributions made by its staff and student representatives on the University’s Council and committees. Feedback provided by key stakeholders in specific consultation exercises and day-to-day interactions, relationships with the trade unions and student representative bodies and local business and community representatives have also informed the University’s decision making process, and allowed active engagement in the University’s operations and development.

Equality and diversity

The University of Reading, in accordance with the specific provisions and general intention of its Charter, confirms its commitment to a comprehensive policy of equal opportunities in which individuals are selected, developed, appraised, promoted and otherwise treated on the basis of their relevant merits and abilities, and are given equal opportunities within the University. This means that no applicant, student, employee, supplier, provider, contractor or user of facilities shall be treated more or less favourably than any other.

The University’s policy of equal opportunities for all includes ensuring that all applicants, including those with disabilities, receive full and fair consideration for job vacancies for which they are suitable applicants, and that staff and students who are disabled or become disabled are provided with reasonable adjustments and other practical, technical and personal support as needed.

A range of training initiatives, policies and procedures demonstrate the University’s commitment to promote best practice in pursuing equality of opportunity.

During the year the University published its Disability Equality Scheme 2009–2012. The overarching goal is to promote equality of opportunity, eliminate disability related discrimination and harassment, promote positive attitudes towards disabled people, and to encourage disabled people to participate in public life. The University’s Disability Advisory Group (DAG) will monitor progress.

The University, working in agreement with the Equality and Human Rights Commission, undertook a thorough evaluation of its services for disabled students in the arrangements for field trips, placements and work experience and also for inviting the disclosure of a disability. This resulted in an action plan for improvements where these are required.

Details of the Disability Equality Scheme, Gender Equality Scheme and Race Equality Policy are available on the University’s website.

Fundraising activities

The University received over £2m in philanthropic income in 2009/10, with a further £2.2m in new gifts and pledges to be realised over the next five years. Since the establishment of the Development & Alumni Relations Office (DARO) in 2004, over £23m has been secured in donations. These gifts come from a variety of sources – including companies, charitable trusts, individuals, and, in particular, alumni – for a variety of projects, such as Professorships, bursaries, prizes and contributions towards improving the infrastructure and facilities at the University.

The University of Reading can boast one of the most successful Annual Funds in UK higher education. Since the Annual Fund was established in 2004, over £2.2 million has been raised to enhance the educational and extra-curricular experience enjoyed by current and future generations of students. This year over 80 current students took part in two telephone campaigns, telephoning almost 2,000 Reading alumni and raising £370,000, with one in three alumni called choosing to make a gift. Alongside this, donors pledged a further £130,000 in response to mailings, emails and through online giving. The University currently has over 5,000 donors from 58 countries across the world.

Summary of the Group and University financial performance in the year

A summary of the Group Income & Expenditure account is as follows:

	2010 £'000	2009 £'000
Income	221,821	225,360
Expenditure	226,029	221,858
(Deficit) / surplus before tax	(4,208)	3,502
Tax	25	21
(Deficit) / surplus after tax	(4,183)	3,523
Exceptional items	3,087	15,980
(Deficit) / surplus after exceptional items	(1,096)	19,503
Surplus transferred from accumulated income in endowment reserves	1,485	89
Surplus for year	389	19,592

The consolidated results for the year show a surplus of £389,000. The previous year's surplus included exceptional items relating to the business combination with Henley Management College. In the current year there were exceptional items relating to sales of land and buildings and to goodwill on the business combination with Reading Real Estate Foundation.

Group income

The Group's income can be analysed as follows:

	2010 £'000	2009 £'000	Increase / (decrease) £'000	Increase / (decrease) %
Funding body grants	65,335	62,797	2,538	4.0
Tuition fees and education contracts	70,455	63,866	6,589	10.3
Research grants and contracts	31,720	29,944	1,776	5.9
Other income	51,755	65,268	(13,513)	(20.7)
Endowment and investment income	2,556	3,485	(929)	(26.7)
Total income	221,821	225,360	(3,539)	(1.6)

Funding body grants rose by 4.0% this year due to increases in matched funding, TDA funding and various other grants.

There was a 10.3% rise in tuition fees and education contracts. This was due to a number of factors including an increase in overseas students, an increase in ICMA income, an increase in short courses for the National Centre for Language and Literacy (NCLL) and an increase in undergraduate tuition fees.

Research income rose by 5.9%, largely due to the reclassification of knowledge transfer partnership (KTP) income as research rather than other income.

Other income fell for a number of reasons. Institute of Education income was reclassified as tuition fees and KTP income was reclassified as research income. There was also a fall in the income generated by Henley Business School.

Endowment and investment income fell, reflecting a fall in investment returns in the current market.

Group expenditure

A summary of the Group's expenditure is given below:

	2010	2009	Increase / (decrease)	Increase / (decrease)
	£'000	£'000	£'000	%
Staff costs	132,340	129,905	2,435	1.9
Other operating expenses	73,854	74,216	(362)	(0.5)
Depreciation	15,772	13,194	2,578	19.5
Interest payable	4,063	4,543	(480)	(10.6)
Total expenditure	226,029	221,858	4,171	1.9

Total expenditure increased by 1.9% compared to the previous year due to the annual rise in salaries and a small increase in overall staff numbers. The depreciation charge increased by £2.6m as a consequence of increased capital expenditure in recent years.

Fixed assets and capital investment programme

The University is carrying out a significant capital investment programme on its Whiteknights and London Road campuses.

Construction work progressed on two new halls of residence, Mackinder Hall and Stenton Hall, which opened for the 2010/11 academic year. The design of the buildings will reduce carbon emissions below the standards required by current Building Regulations by around 20 per cent. Once Mackinder and Stenton Halls are operational and fully occupied, the University will then commence building two new halls of residence on the site of the current Childs Hall. The new halls, which will create 894 new bedrooms, will follow the design of Mackinder and Stenton Halls and be a mix of townhouses, built around central courtyards as part of Stenton Halls, and flats at Childs Hall.

The University is increasingly taking a holistic approach to accommodation and catering. Work has been completed on the £6m Catering Central

Production Unit. This has created a central food production facility with distribution via forwarding kitchens and will help to remove the distinction between ‘central’ and ‘halls’ catering. New catering outlets are being developed and existing ones will be refurbished.

The Business School and the Hopkins Building opened to wide acclaim during the year. The Hopkins Building is home to the University’s new facilities for biomedical and pharmaceutical sciences. The Students’ Union Nursery became fully functioning during the year and achieved full occupation.

The University is currently constructing a new purpose-built home for its School of Film, Theatre & Television in the heart of the Whiteknights campus. The £11.8 million project will create a dedicated space for three theatre performance areas, a screening room, film editing rooms, TV studio, costume and make up areas, rehearsal spaces and prop store, as well as staff offices. It is hoped to occupy the building by Easter 2011.

The University has commenced a major refurbishment of its London Road campus, the original home of the University in the heart of Reading. The £21 million investment in the University’s academic infrastructure will create a new London Road home for the University’s Institute of Education, which trains nearly 1,000 teachers every year. The project also allows for the sensitive conservation of many of the historic and listed buildings on the site. The works will be complete by summer 2011. The completion of the sale of the University’s adjacent Mansfield Hall site, which was surplus to the University’s requirements, made a major contribution to the funding for this project.

Refurbishment works at Thames Court at Greenlands were completed in January. The Thames Court refurbishment project is part of a £3m programme of building works at Greenlands, which includes the Greenlands Trust Suite and Academic Resource Centre. The work included refurbishing 44 existing bedrooms and redecorating associated common areas.

The capital programme is being financed using a mixture of funding sources. The University issued a £70m bond in 2007 to provide core funding; in June 2009 it agreed a £60m facility with Barclays Bank to finance the residential redevelopment noted above; the University has also received £25m capital funding from HEFCE for the period to 31 March 2011; in February the University disposed of its Mansfield Hall site for £15.5m; and, finally, the University has since put in place a £50m facility with Barclays Bank plc to provide the balance of funding.

Investments

The investments held by the University’s trusts have risen in value by £6.6m from £39.4m to £46.0m over the year to 31 July 2010. The University and its trusts hold some properties for their investment potential. These are carried at their market value. The value of the University’s investment properties fell by £0.5m during the year and those of its trusts increased by £2.4m.

Pensions

The two primary pension schemes available to staff working for the University are the national universities pension scheme, the Universities

Superannuation Scheme (USS), and the University's own defined benefit scheme, the University of Reading Employees' Pension Fund (UEPF). Most academic staff are members of the USS scheme but a significant number of staff are members of the UEPF scheme. In common with the other members of USS the University made employer contributions to the scheme in 2009–10 equivalent to 14% of salary costs for the first 3 months of the year and 16% for the remaining 9 months.

The financial statements report the deficit of the University's UEPF scheme on the balance sheet, in line with the requirements of FRS 17. Pension fund deficits represent an issue across a wide range of sectors in the economy, particularly following the downturn in financial markets experienced over the course of the last financial year, and continuing increases in the life expectancy assumptions used by pension scheme actuaries. A triennial valuation of the scheme was carried out at 31 July 2008 and updated to 31 July 2010. The valuation at 31 July 2010 shows that the deficit on the scheme is £21.6m, which represents an increase of £7.6m from the 2009 figure (£14.0m).

The University has, over a number of years, steadily increased its contributions to the UEPF scheme by increasing the employer's contribution rate. It has also agreed to make additional contributions, currently £1.5m per annum, to the fund over the course of 15 years.

Cash flow

The Group generated a net cash inflow from operating activities of £9.0m (2009: £21.5m). The extensive capital programme net of grants received contributed a cash outflow of £73.4m (2009: £32.1m). This was largely funded by an increase in unsecured borrowings of £48m. As a result of the above, the Group's overall cash balance decreased by £15.1m (2009: increase of £7.4m) in the year.

Professional indemnity

The University has professional indemnity cover in place for all members of staff and Council. This cover also extends to staff and members of Council who are appointed as directors to the boards of the University's subsidiaries.

Statement of disclosure of information to auditors

The Council members who held office at the date of approval of this report confirm that, so far as they are each aware, there is no relevant audit information of which the University's auditors are unaware. Each member of Council confirms that they have taken all the steps that they ought to have taken as a member of Council to make themselves aware of any relevant audit information and to establish that the University's auditors are aware of that information.

The future

The University recognises that to be attractive to students, sponsors and staff, it must continue to invest in its estates and facilities, and improve its teaching and research environment. This is balanced against the need to identify and achieve significant cost savings in the current

economic climate. A key objective of the University is to continue to generate operating surpluses at a level that is academically and economically sustainable, so as to build the University's reserves and borrowing capacity, to help fund its future plans. The University's overall financial position is sound.

There are difficulties in setting targets over several years in the context of such a fast-moving external environment. The University has drawn up specific measures to reshape the University with the task of saving around £12m by the end of 2011/12. Most of these savings have already been identified and a number of significant changes have been implemented for the 2010/11 academic year.

Through careful management in times of change, the University seeks to build on its past successes and strengthen its position as a centre of high quality teaching, learning and research. The University will continue to work hard to adapt to the changing economic climate for higher education nationally and internationally. There is a clear need for prudent planning and playing to the University's strengths in this process, to ensure that the University of Reading emerges in a stronger position, with its reputation as a leading, research-intensive centre of excellence for scholarship, teaching and learning enhanced.

Gordon Marshall
Vice-Chancellor

David Savage
Director of Finance and Corporate Services

26 November 2010

Governance statement

Responsibilities of the University's Council and structure of corporate governance

The University is committed to the highest standards of governance and continues to review its processes and framework to refine its governance arrangements. In developing its approach the University has drawn on the Combined Code on Corporate Governance. In addition the University has referred to guidelines published by Higher Education Funding Council for England (HEFCE), the British Universities Finance Directors Group (BUFDG) and the Committee of University Chairs (CUC) including the CUC Governance Code of Practice. This statement sets out how the University has applied the relevant corporate governance recommendations during the year.

The Council's responsibilities include the management of the affairs of the University and it is required to present audited financial statements each year.

The Council has reviewed and continues to review the University's governance arrangements and is satisfied that the University has fully complied with HEFCE's guidelines throughout the financial year. The University's practices are mostly consistent with the provisions of the CUC Governance Code in Practice. Areas where practices differ from the Code are set out below:

- The Council has 33 members. The Council requires that the senior academic officers of the University be included in membership for purposes of accountability and values the presence of various categories of staff and students as a means of ensuring University-wide involvement in its work. Beyond this, lay members, whose contribution outwith meetings of the Council is an integral part of arrangements, form a clear majority.
- The Council monitors its effectiveness through reviews, the last of which was concluded in 2004–05 and the next of which will be initiated during 2010–11.
- The University has developed a comprehensive set of performance measures which are evaluated at least annually and information is made available to the Council and its main committees. The University has decided that for reasons of commercial confidentiality it will not make these measures, and its performance against them, available in the public domain.

The structure of governance in the year 2009–10 is outlined below.

Overview

The Charter and Statutes determine the primary organisational structure of the University, the key constituent parts of which are the Council and the Senate. Each has defined and discrete responsibilities and functions described in further detail in this statement.

The Council

The Council is the governing body of the institution and in exercising its role and powers undertakes to meet the obligations placed upon the University by the founding Charter. The Council has responsibility for the conduct of all of the affairs of the University and for the achievement of its mission of educating talented people well, conducting outstanding research, and promoting the responsible application of new knowledge.

The Council sets the University's strategic direction, ensures compliance with statutory requirements and approves constitutional changes. The Council is ultimately responsible for managing the University's estate, finance and staff, with much of the detailed work falling to a suite of principal committees. Broad representation by lay members drawn from commerce and the local community provides access to a wide range of expertise and perspectives. The primary responsibilities of the Council are set out in the University's Statutes. The Council meets four times a year and comprises a majority of lay members. Lay members of the Council receive no remuneration for their role in these bodies although they are reimbursed for expenses incurred in attending meetings.

The role of President of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Vice-Chancellor is an ex-officio member of the Council and the principal academic and administrative officer of the University. He is also the 'designated officer' under the Financial Memorandum with HEFCE and may be regarded as the chief executive of the University. He exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Deputy Vice-Chancellor, Pro-Vice Chancellors, Deans and Directors all support and contribute to this work.

The Senate

The Senate is the University's main academic administrative body. Reporting to the Council and meeting at least four times a year, the Senate advises on areas such as student entry, assessment and awards. With around 100 members, the Senate includes Deans, Heads and elected representatives of Schools, as well as professional staff and students. University Boards responsible for developments in enterprise, research and teaching and learning report to the Senate.

Committees of Council

The Council has five principal committees each of which reports to the Council on a regular basis. These committees have formally prescribed terms of reference and specified membership, including a majority of lay members. The principal committees are:

- the Strategy and Finance Committee which meets at least four times a year and, inter alia, advises the Council on key strategic, policy and operational issues including the financial management of the University. This Committee considers financial plans, monitoring reports and proposals with financial implications recommended by the Senior Management Board.

- the Audit Committee, which is independent and advisory, reports directly to the Council. This Committee is responsible for considering the findings of internal and external audit, the management responses and progress against implementation plans and has an overview of the internal and external audit functions. It also has oversight of the internal control system, risk management arrangements and the framework for ensuring economy, efficiency and effectiveness including governance arrangements. The Audit Committee monitors compliance with regulatory requirements. It meets three times a year and has the right of access to information it considers necessary. While senior executives have the right to attend meetings of the Committee, they are not members of the Committee. The Committee meets with both the internal and external auditors for independent discussions.
- the Remuneration Committee which determines the pay and conditions for the University’s senior executive management, including the Vice-Chancellor, the Professoriate and equivalent non-academic staff. It has the power to make recommendations to the Council on remuneration and contractual arrangements. A report from the Remuneration Committee is included on pages 33 to 34.
- the Appointments Committee which meets termly and discharges the Council’s responsibilities in respect of non-financial aspects of staffing matters. It also operates as the Nominations Committee in seeking and recommending persons to serve on the Council and other committees.
- the Support Services Policy Committee which has oversight of non-academic services policy and advisory oversight of student services in general. It also discharges the Council’s responsibility in respect of formal student complaints and disciplinary matters.

Day to day management of the University is undertaken by the Senior Management Board comprising the Vice-Chancellor, the Deputy Vice-Chancellor, Pro-Vice-Chancellors, Deans of Faculties and Heads of Directorate. The Board meets fortnightly, other than in the summer vacation, to consider the strategic direction of the University and reports regularly to the Senate and Strategy and Finance Committee.

Supply of information

Papers summarising financial and non-financial performance, major events and key indicators of performance are presented to the Council, Strategy and Finance Committee and Senior Management Board on a regular basis. Papers explaining topics on the agenda for the various Council and committee meetings are issued in advance. The Council monitors performance and various key areas on a regular basis including operating and financial performance, annual operating plans and budgets, strategic proposals, student recruitment, changes in the operational environment including those due to funding, regulatory or legal changes, staff recruitment and retention, remuneration and risk management arrangements.

Risk management and internal controls

The University acknowledges the risks inherent in its activities, and is committed to managing those risks that pose a significant threat to the achievement of its academic and business objectives and financial

health. The systems for risk management and internal controls exist to manage and control the risk of failure to achieve academic and business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. There is a continuous process for identifying, evaluating and managing the significant risks faced by the University and this is reviewed regularly by the Senior Management Board, Strategy and Finance Committee and the Council. This process was in place throughout the year under review and up to the date of approval of the financial statements.

In accordance with the University's Charter and Statutes and the Financial Memorandum with HEFCE, the University's Council is ultimately responsible for the management of the affairs of the University, advancing its interests, promoting teaching and research and providing an excellent student experience.

A key responsibility of the Council is to ensure an effective system of internal and financial controls to support the achievement of the University's objectives while safeguarding the public and other funds.

The system of internal control is developed on an ongoing basis and is designed to identify the principal business, operational, compliance and financial risks to the achievement of aims and objectives, to evaluate the nature and extent of those risks and manage them efficiently, effectively and economically.

The Council, through the Strategy and Finance Committee, has overall responsibility for reviewing the effectiveness of the systems of internal control and risk management. The University has developed and adopted a formal and structured risk management policy and system to ensure that key risks are identified, prioritised and managed consistently across the University. The policy and system are reviewed and updated on a regular basis. Reports documenting the policy, system, procedures and issues arising are reported to the Strategy and Finance Committee on a regular basis. A comprehensive set of policies and procedures designed to manage and monitor risks is in place. The key elements of these systems are explained below: –

- the Council meets 4 times a year to consider the University's strategic direction, decisions and progress against the Corporate Plan and is advised by various Committees. The Council, through the Strategy and Finance Committee, is responsible for reviewing the effectiveness of the internal controls of the University.
- the University has developed a system of internal control in line with best practice. This system is designed to identify the principal risks which may prevent or inhibit the achievement of the University's aims and objectives, to evaluate the nature and extent of those risks and manage them efficiently, effectively and economically.
- Audit Committee receives regular reports from the Head of Internal Audit Services, together with recommendations for improvement. These reports comment on the arrangements for internal control, risk management and governance.

- a Risk Management Group reporting to the Senior Management Board and led by the Deputy Vice-Chancellor oversees risk management at the University. The University has developed its Corporate Plan with specific reference to the key risks identified for the University. The Risk Management Group also oversees work on major incident and business continuity planning.
- a framework for managing risk is in place and includes a risk register. Each key risk is assigned to named members of the Senior Management Board. Each risk has also been assigned to the appropriate committee to monitor the operation of the associated controls within their broader remit. The risks are prioritised based on the likelihood of an event arising from a particular risk and an assessment of the anticipated impact. The assigned priority helps focus resources on critical areas.
- corporate and subsidiary risk registers held at school and directorate level which document controls, mitigating actions and early warning mechanisms in place to manage each risk. These registers are assessed by the Risk Management Group who consider the risks identified, their interactions and interdependencies, the exposure and the proposed processes for managing these risks. Schools and directorates also report on their risk management arrangements to the Risk Management Group. The registers are directly linked to and inform the Corporate and Operational Plans.
- internal and external audit review the system of risk management and internal controls on an ongoing basis. The internal audit programme is driven by the strategic, operational and financial risks potentially affecting the University with each risk being reviewed by internal audit on a three year rolling programme. In discharging its plan, internal audit gives assurance on the quality and reliability of the risk management framework and the controls which protect the University against exposure to risk and reviews compliance with policies and procedures.

The development of a risk management framework over recent years has been an evolutionary process. Significant work on embedding the framework and raising awareness across the University has been undertaken and further efforts are underway to ensure staff at school level are able to participate in and inform the process.

Register of interests

The University Secretary maintains a register of interests for Council members, lay members of University committees and senior members of staff.

Preparation of the financial statements

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation, the Statement of Recommended Practice: Accounting for Further & Higher Education 2007 and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE and 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 Group and University and of the surplus or deficit and cash flows for that year. In preparing the financial statements, the Council is required to ensure that:

- suitable accounting policies are selected and applied consistently
- judgements and estimates are made that are reasonable and prudent
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that it 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 these financial statements.

The Council has taken reasonable steps to:

- ensure that the University's funds have been applied in accordance with the University's statutes, the Financial Memorandum agreed with HEFCE and the funding agreement with the Training and Development Agency for Schools (TDA) as appropriate
- 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 and other irregularities
- secure the economical, efficient and effective management of the University's resources and expenditure, and
- ensure that material risks are identified, carefully considered and properly managed and that appropriate risk management procedures and processes are in place across the University.

Internal financial controls

The key elements of the University's system of internal financial controls and the associated process for monitoring the effectiveness of these controls include the following:

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools and administrative directorates and such other staff to whom such authority and responsibility is from time to time delegated
- a comprehensive corporate planning process supported by key strategic and financial resource plans and a robust investment appraisal process
- regular reviews of academic, operational and financial performance are undertaken on an ongoing basis using operational performance information and financial monitoring reports
- clearly defined and formalised requirements for approval and control of expenditure, with capital expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council

- comprehensive financial regulations are reviewed and developed by the Strategy and Finance Committee and amendments are subject to approval by the Council
- the internal audit team undertake an annual programme of work which is reviewed and approved by the Audit Committee
- the Audit Committee reviews the effectiveness of risk management, control and governance arrangements and
- the Head of Internal Audit Services is responsible for providing reasonable assurance on the adequacy and effectiveness of risk management, control and governance arrangements.

Information held on the University's website

The Council is responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Report of the Remuneration Committee

The Remuneration Committee, one of the five principal committees of the Council, determines on the authority of the Council the remuneration of each individual member of the University's senior executive and academic leadership and management, specifically the Vice-Chancellor, the Professoriate and equivalent non-academic staff. It has the power to make recommendations to the Council on the contractual arrangements and the terms and conditions of employment for such staff.

The Committee has six members, five of whom are lay members of the Council and the other the Vice-Chancellor. It is chaired by the President of the Council. The University Secretary and Director of Governance is its Secretary and the Director of Human Resources is in attendance at its meetings. No employees of the University are present when their own remuneration is under consideration. The Committee reports directly to the Council and receives reports and recommendations from its Professorial Staff Salaries Advisory Group and its Senior Staff Salaries Advisory Group respectively. These Advisory Groups, and the Committee itself, routinely have regard to the annual UCEA Remuneration Survey in the course of their deliberations and are mindful at all times of such guidance as HEFCE may from time to time provide.

The Committee has met twice during the year ending 31 July 2010 and, in the course of those meetings, has:

- i) reviewed its own terms of reference and recommended a minor modification thereto, subsequently approved by the Council;
- ii) prepared a Statement of the University's Remuneration Policy, subsequently adopted by the Council;
- iii) defined the approval arrangements that are henceforth to apply in respect of severance and early retirement arrangements;
- iv) agreed, on the basis of a report from its Professorial Salaries Advisory Group, adjustments to salary for certain Professorial staff with effect from 1 August 2010;
- v) agreed, on the basis of a report from its Senior Staff Salaries Advisory Group, adjustments to salary for certain Grade 9 staff with effect from 1 August 2010;
- vi) agreed that there be no adjustment to the salaries of the Deputy Vice-Chancellor and the Pro-Vice-Chancellors with effect from 1 August 2010;
- vii) agreed that there be no adjustment to the salary of the Vice-Chancellor with effect from 1 August 2010 and noted that, in consequence of this and of its decisions as recorded at (iv), (v), and (vi) above, no additional salary payment other than that which may arise from any percentage increase as may be negotiated nationally

was to be made to any present member of the Senior Management Board with effect from 1 August 2010, save for one modest non-consolidated award;

- viii) agreed that there be no adjustment to the salaries of GP Principals at the University Medical Practice with effect from 1 August 2010.

Christopher Fisher
Chair

26 November 2010

Independent auditors' report to the Council of the University of Reading

We have audited the Group and University financial statements (the 'financial statements') of the University of Reading for the year ended 31 July 2010 which comprise the Group Income and Expenditure Account, the Group and University Balance Sheet, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out therein.

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

Respective responsibilities of the University Council and auditors

The responsibilities of the University Council for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England in 2007, the 'Statement of Recommended Practice: Accounting for Further and Higher Education', applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Governance Statement on pages 25 to 31.

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 are properly prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education'. We also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England dated June 2008 and the Financial Memorandum with the Training and Development Agency for Schools. We also report to you whether in our opinion other information contained within the Operating and Financial Review is not consistent with the financial statements.

In addition, we report to you if, in our opinion, 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 read the other information contained in the Operating and Financial Review and the Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

Basis of 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 judgments made by the University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and 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.

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the Group's and the University's affairs as at 31 July 2010 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the 'Statement of Recommended Practice: Accounting for Further and Higher Education';
- in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the University's statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England dated June 2008 and the Financial Memorandum with the Training and Development Agency for Schools.

E. Holiday

for and on behalf of KPMG LLP. Statutory Auditor

Chartered Accountants

Arlington Business Park

Theale RG7 4SD

26 November 2010

Income and expenditure account for the year ended 31 July 2010

		Consolidated	
		2010	2009
		£'000	£'000
Income			
Note 1	Funding body grants	65,335	62,797
2	Tuition fees and education contracts	70,455	63,866
3	Research grants and contracts	31,720	29,944
4	Other operating income	51,755	65,268
5	Endowment and investment income	2,556	3,485
	Total income	221,821	225,360
Expenditure			
6	Staff costs	132,340	129,905
9	Other operating expenses	73,854	74,216
12	Depreciation of tangible fixed assets	15,772	13,194
8	Interest and other finance costs	4,063	4,543
	Total expenditure	226,029	221,858
	(Deficit) / surplus on continuing operations	(4,208)	3,502
10	Taxation credit	25	21
	(Deficit) / surplus after depreciation and tax	(4,183)	3,523
Exceptional items			
11	Goodwill	250	16,558
20	Reorganisation costs	0	(578)
9	Profit on disposal of fixed assets	2,837	0
	(Deficit) / surplus after exceptional items	(1,096)	19,503
15	Surplus for the year transferred from accumulated income in endowment funds	1,485	89
	Surplus for the year retained within general reserves	389	19,592

All items of income and expenditure arise from continuing operations. There is no material difference between the surplus reported above and that on an historical cost basis.

Statement of total recognised gains and losses

		Consolidated	
		2010	2009
		£'000	£'000
	(Deficit) / surplus after exceptional items	(1,096)	19,503
Note 15	Unrealised gain / (loss) on the value of endowment investments	5,241	(5,594)
13	Unrealised loss on revaluation of investment property	(512)	(7,747)
15	Unrealised gain / (loss) on revaluation of endowment investment property	2,359	(4,165)
17	Unrealised gain / (loss) on current asset investments	77	(110)
	Unrealised gain / (loss) on fixed asset investments	8	(12)
15	Loss / (gain) on disposal of endowment assets	1,558	(3,792)
	New endowments	501	960
31	Actuarial (loss) / gain recognised in the pension scheme	(8,422)	4,515
	Exchange differences	(43)	(18)
Total recognised (losses) / gains in the year		(329)	3,540
Reconciliation			
	Opening reserves and endowments	200,272	196,732
	Total recognised (losses) / gains in the year	(329)	3,540
Closing reserves and endowments		199,943	200,272

Balance sheet as at 31 July 2010

	Consolidated		University	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Fixed assets				
Note 12 Tangible assets	390,698	328,536	368,032	305,470
13 Investment properties	21,984	27,117	21,984	27,117
14 Investments	139	127	85	76
	412,821	355,780	390,101	332,663
15 Endowment assets	78,818	71,638	8,032	7,119
Current assets				
Stock	1,622	1,730	1,622	1,686
16 Debtors	25,975	27,468	30,698	27,840
17 Current asset investments	4,829	6,029	1,976	7,064
Cash at bank and in hand	0	8,391	0	8,099
	32,426	43,618	34,296	44,689
18 Creditors: Amounts falling due within one year	(120,893)	(71,011)	(123,072)	(77,878)
Net current liabilities	(88,467)	(27,393)	(88,776)	(33,189)
Total assets less current liabilities	403,172	400,025	309,357	306,593
19 Creditors: Amounts falling due after more than one year	(70,608)	(70,670)	(70,608)	(70,670)
20 Provisions for liabilities and charges	(350)	(883)	(316)	(501)
Net assets before deducting the pension liability	332,214	328,472	238,433	235,422
31 Net pension liability	(21,628)	(14,028)	(21,628)	(14,028)
Net assets after deducting the pension liability	310,586	314,444	216,805	221,394
21 Deferred capital grants	110,643	114,172	130,954	131,107
15 Endowments				
Expendable	71,654	65,299	868	780
Permanent	7,164	6,339	7,164	6,339
	78,818	71,638	8,032	7,119
Reserves				
22 General reserves	108,099	102,716	64,793	57,250
22, 31 Pension fund reserve	(21,628)	(14,028)	(21,628)	(14,028)
22 Revaluation reserve	34,654	39,946	34,654	39,946
	121,125	128,634	77,819	83,168
Total funds	310,586	314,444	216,805	221,394

The financial statements on pages 37 to 65 were approved by Council on 26 November 2010, and signed on its behalf by:

C C Fisher
President of the Council

G Marshall CBE
Vice-Chancellor

D C L Savage
Director of Finance & Corporate
Services

Cash flow statement for the year ended 31 July 2010

		Consolidated	
		2010	2009
		£'000	£'000
Note 23	Net cash inflow from operating activities	8,956	21,523
24	Returns on investments and servicing of finance	(37)	241
	Taxation	25	21
25	Capital expenditure and financial investment	(73,433)	(32,069)
26	Acquisitions and disposals	252	2,813
27	Management of liquid resources	1,200	3,646
28	Financing	47,938	11,266
29	(Decrease) / increase in cash in the year	(15,099)	7,441
Reconciliation of net cash flow to movement in net debt			
29	(Decrease) / increase in cash in the year	(15,099)	7,441
	Decrease in current asset investments	(1,200)	(3,646)
28	Cash outflow from financing	(47,938)	(11,266)
	Movement in net debt in the year	(64,237)	(7,471)
	Net debt at 1 August	(67,005)	(59,534)
	Net debt at 31 July	(131,242)	(67,005)

Statement of principal accounting policies

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and applicable accounting standards.

The financial statements are prepared on a going concern basis and under the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the University, the University's subsidiary companies and the University's Trusts. Certain companies wholly owned by the University have not been included in these consolidated statements on the grounds of non-materiality.

In accordance with Financial Reporting Standard 2, the activities of the Students' Union have not been consolidated because the University does not control its activities.

Recognition of income

Recurrent grants from funding councils are recognised in the period to which they relate.

Fee income is stated gross of any bursaries and scholarships and net of any discounts and credited to the income and expenditure account over the period in which the students are studying.

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

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

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

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

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve via the statement

of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit to the extent that it is not covered by a previous revaluation surplus.

Increases or decreases in value arising on the revaluation or disposal of endowment assets are reflected in the value of the fund concerned and in the balance sheet and statement of total recognised gains and losses.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transaction. Assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where they are related to forward foreign exchange contracts, at contract rates. The resulting exchange differences are taken to the income and expenditure account in the year in which they arise.

The financial statements of foreign subsidiaries are translated into pounds sterling. The assets and liabilities of these operations are translated at the balance sheet closing rate. The results of these operations are translated at the average rate in the relevant period. Exchange differences on retranslation of the opening net assets and the results are taken to reserves.

Agency arrangements

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

Accounting for retirement benefits

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UEPF). The schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The assets of the schemes are held in separate trustee-administered funds. USS is a multi-employer final salary scheme where it is not possible to identify the assets of the scheme attributable to the University. UEPF provides benefits for the University's members of staff not eligible to join the USS scheme. A small number of staff remain in other pension schemes.

The funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes.

In line with FRS 17, contributions to the USS pension fund continue to be charged to the income and expenditure account as if the scheme were a defined contribution scheme because the scheme is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. As a result, the costs associated with USS represent the contributions payable to the scheme in respect of the accounting period.

Under FRS 17, the income and expenditure account is charged with the current service cost and any past service costs as is the net financing cost attributable to the pension liabilities and return on assets. Actuarial gains and losses on the UEPF scheme, including the differences between expected and actual return on scheme assets, are recognised in the statement of total recognised gains and losses. The surplus or deficit on the UEPF scheme is reported on the balance sheet with the scheme assets valued at market value and scheme liabilities measured on an actuarial basis using the projected unit method. The post retirement surplus or deficit is included on the University's balance sheet, net of the related amount of deferred tax. A surplus will only be included to the extent that it is recoverable through reduced contributions in the future or through refunds from the scheme.

Leases

Assets held under finance leases and other similar contracts, which confer rights and obligations similar to those attached to owned assets, are treated as if the asset had been purchased outright by the University. The assets are included in fixed assets and the capital element of the leasing commitments is reported as an obligation under finance leases within creditors. These assets are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding.

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Financial instruments

The University uses derivative financial instruments to reduce exposure to interest rate movements. Such derivative financial instruments are not held for speculative purposes and relate to actual assets or liabilities or to probable commitments, changing the nature of the interest rate by converting a fixed rate to a variable rate or vice versa. Interest differentials under these instruments are recognised by adjusting net interest payable over the term of the contract. In instances where the derivative financial instrument ceases to be a hedge for an actual asset or liability, it is marked to market and any resulting profit or loss recognised at that time.

Financial assets and liabilities are offset only when there is a legally enforceable right to set off the recognised amounts and where the University intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Tangible fixed assets

a) Land and buildings

Land and buildings are stated at cost. Costs incurred in relation to a tangible fixed asset after its initial purchase or production are capitalised to the extent that they increase the expected future benefits to the

University from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements being added to the gross carrying amount of the tangible fixed asset concerned.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July.

Land is held freehold and is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their expected useful lives of 50 years and building improvements and extensions over a maximum of 30 years.

Buildings under construction are not depreciated until they are brought into use.

b) Equipment

The purchase of equipment costing less than £10,000 per individual item or group of related items is charged to the income and expenditure account in the year of acquisition. All other equipment is capitalised and depreciated over its expected useful life as follows:

Plant and machinery	10–30 years
Furniture and fittings	10 years
Computer systems and associated software	4–10 years
Motor vehicles and general equipment	4 years
Equipment acquired for specific research projects	3 years

Where material, a depreciable asset's anticipated useful economic life is reviewed annually and the accumulated and future depreciation adjusted in accordance with FRS 15.

Where fixed assets are acquired with the aid of specific grants, they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the asset on a basis consistent with the depreciation policy.

c) Special collections

The University holds works of art and a range of other collections including those held by the library and various museums and departments across the University. Many of these collections or items in these collections have been given to the University by bequest or gift. Acquisitions are capitalised at cost or, in the case of donated assets, at valuation on receipt. These assets are held at open market value basis. These assets are not depreciated as their long economic life and high residual value mean that any depreciation would not be material. These collections will be revalued on an ongoing basis.

d) Investment properties

Except in the year of acquisition, investment properties held by the University and its Trusts are revalued annually on an open market basis and the aggregate surplus or deficit is transferred to a revaluation reserve except that any impairment in the value of an investment property is taken to the income and expenditure account for the period. In the year of acquisition, the cost of the property is used as a proxy for open market

value. Depreciation is not provided on freehold buildings held for investment purposes; such properties are not held for consumption but for investment and the Council considers that systematic annual depreciation would be inappropriate.

Borrowing costs

Borrowing costs directly relating to expenditure on the construction, development or major refurbishment of fixed assets are capitalised. The amount capitalised is calculated using the University's weighted average cost of borrowings over the period from the commencement of the work until the date of practical completion. The capitalisation of finance costs is suspended if there are prolonged periods when development activity is interrupted. All other borrowing costs are recognised in the income and expenditure account in the period in which they are incurred.

Donations for fixed assets

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

Repairs and maintenance

Expenditure to ensure that fixed assets maintain their standard of performance is recognised in the income and expenditure account when it is incurred. The University has a comprehensive planned maintenance programme, which is reviewed on an annual basis.

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, cash at bank, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are available within 24 hours without penalty. No other investments, however liquid, are included as cash.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Accounting for donations and endowments

a) Unrestricted donations

Donations given to the University which are not subject to any restrictions set by the donor on how the monies may be used are recognised in the income and expenditure account. These donations are recognised on receipt or before receipt where there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

b) Endowment funds

Where donations received can only be applied for a particular purpose or are to be retained for the benefit of the University in line with the donor's

wishes they are accounted for as endowments. There are three main types of endowment, details of which are given below.

- i) Restricted permanent endowments – the income derived from a donation given to the University may be applied for a purpose specified by the donor where the donor has specified that the capital funds are to be held by the University in perpetuity.
- ii) Restricted expendable endowments – these are funds given to the University where the capital and income derived therefrom are to be applied for purposes specified by the donor.
- iii) Unrestricted permanent endowments – these are funds where the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.

The University's Trusts have been excluded from the University endowments and are included on consolidation.

Investments

Fixed asset investments that are not listed on a recognised stock exchange are carried at historic cost less any provision for impairment in their value. Listed investments held as fixed, current or endowment assets have been included in the balance sheet at market value.

Stock

Stock is stated at the lower of cost and net realisable value after making due provision for obsolete and slow moving items.

Taxation

The University is considered to pass the tests set out in Paragraph 1 of Schedule 6 of the Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 of Part 11 of the Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Non-charitable subsidiary companies are liable to corporation tax.

The University is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Intra-Group transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between the subsidiaries and Trusts included in the consolidation are also eliminated on consolidation.

Provisions

Provisions are recognised when the institution has a present legal or constructive obligation as a result of a past event and it is probable that a transfer of economic benefit will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material.

Contingent assets and liabilities are disclosed by way of note where there is a possible rather than actual or probable asset or obligation arising from a past event or where it is not possible to measure the asset or obligation.

Goodwill

Goodwill arising on a business combination represents the excess of the cost of acquisition over the fair value of the identifiable assets and liabilities of an acquired business at the date of acquisition. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Negative goodwill, which arises when the fair value of the identifiable assets and liabilities exceeds the cost of acquisition, is accounted for in accordance with FRS 10. Where the underlying substance of a business combination is that of a gift of the fair value of the assets and liabilities for nil consideration, the negative goodwill is taken to the income and expenditure account immediately.

Notes to the accounts

1	Funding body grants	Consolidated	
		2010 £'000	2009 £'000
	Recurrent grant		
	Higher Education Funding Council (HEFCE)	53,236	53,206
	Training and Development Agency (TDA)	2,387	2,142
	Specific grants		
	Higher Education Academic Subject Centres	4,164	2,742
	Higher Education Innovation Fund	1,663	1,392
	Teacher Quality Enhancement Fund	0	322
	Other	403	280
	Deferred capital grants released in year:		
	Buildings	2,605	1,678
	Equipment	877	1,035
		65,335	62,797
2	Tuition fees and education contracts	Consolidated	
		2010 £'000	2009 £'000
	Full-time home and EU students	31,228	30,320
	Full-time international students	19,724	17,379
	Part-time students	12,757	10,454
	Research training support grants	4,577	3,713
	Short course fees	1,406	1,130
	Total fees paid by or on behalf of individual students	69,692	62,996
	Education contracts	763	870
		70,455	63,866
3	Research grants and contracts	Consolidated	
		2010 £'000	2009 £'000
	Research Councils and charities	20,773	19,062
	Governmental	6,831	6,711
	Industry and commerce	3,857	3,730
	Releases from deferred capital grants	259	441
		31,720	29,944
4	Other operating income	Consolidated	
		2010 £'000	2009 £'000
	Residences, catering and conferences	20,551	22,631
	Other income-generating activities	16,065	21,151
	Other income	14,685	21,108
	Release from deferred capital grants	454	378
		51,755	65,268
5	Endowment and investment income	Consolidated	
		2010 £'000	2009 £'000
	Income from expendable endowments	2,064	1,618
	Income from permanent endowments	257	217
	Income from short-term investments	235	1,650
		2,556	3,485

6 Staff costs

	Consolidated	
	2010 £'000	2009 £'000
Analysis of staff costs		
Salaries	107,357	105,779
Social security costs	9,029	8,992
Pension costs	14,637	13,814
Other staff and pension costs	1,317	1,320
	132,340	129,905

Remuneration of higher paid staff, excluding employer's pension contributions:

	2010 Number	2009 Number
£100,001 to £110,000	8	8
£110,001 to £120,000	7	5
£120,001 to £130,000	0	2
£130,001 to £140,000	3	3
£140,001 to £150,000	0	0
£150,001 to £160,000	0	0
£160,001 to £170,000	0	1
£170,001 to £180,000	1	1
£180,001 to £190,000	1	0
£190,001 to £200,000	0	0
£200,001 to £210,000	0	0
£210,001 to £220,000	0	0
£220,001 to £230,000	0	0
£230,001 to £240,000	0	1
£240,001 to £250,000	1	1
£250,001 to £260,000	0	0
£260,001 to £270,000	1	0
	22	22

	2010 £	2009 £
Compensation for loss of office paid to a senior post holder	0	103,390

	Consolidated	
	2010 Number	2009 Number
Average number of full-time equivalent members of staff:		
Academic	710	711
Research	360	365
Management and specialist	736	716
Technical	193	187
Other	1,062	1,011
	3,061	2,990

7 Emoluments of the Vice-Chancellor

	2010 £	2009 £
Emoluments	249,989	246,771
Pension contributions	29,475	36,732

In addition to the sums above, the Vice-Chancellor received a one-off payment of £91,596. This represents the total of sums which have been accrued in an unfunded pension scheme, outside the USS, since 2003. £81,828 was disclosed as pensions contributions in previous years and the remainder of £9,768 was accrued during 2009/10. Following pensions rule changes which came into force during the year, the fund was dissolved and the Remuneration Committee approved the payment of the balance to the Vice-Chancellor.

8 Interest and other finance costs

	Consolidated	
	2010 £'000	2009 £'000
On bank loans, overdrafts and other loans		
Repayable within 5 years, not by instalments	286	316
Repayable wholly or partly in more than five years	2,288	2,848
Finance leases	19	80
Pension finance interest	1,470	1,299
	4,063	4,543

Interest of £2,204,000 has been capitalised in the year to 31 July 2010 (2009 – £918,000) and is included within tangible fixed assets. Total aggregate capitalised finance costs to date within the cost of tangible fixed assets at 31 July 2010 were £3,613,000 (2009–£1,409,000).

9 Analysis of total expenditure by activity

	Staff costs	Other operating expenses	Depreciation	Interest payable	2010	2009
	£'000	£'000	£'000	£'000	£'000	£'000
Consolidated						
Academic schools	76,571	28,391	968	52	105,982	90,727
Academic services	8,645	4,688	1,228	0	14,561	10,141
Administration and central services	13,477	14,133	231	0	27,841	31,437
Premises (excl. residential and catering)	10,206	13,433	9,826	2,517	35,982	33,383
Residences, catering & conferences	6,176	4,288	2,499	0	12,963	16,290
Research grants and contracts	15,390	6,728	259	0	22,377	21,192
Other expenses	1,875	2,193	761	1,494	6,323	18,688
	132,340	73,854	15,772	4,063	226,029	221,858

	Consolidated	
	2010 £'000	2009 £'000
Other operating expenses include:		
Council members' expenses	2	1
External auditors' remuneration		
– audit of these financial statements	109	81
– tax advisory services	236	271
– other non-audit services	43	47
Operating lease rentals		
– land and buildings	94	0
– plant and equipment	585	566
Exceptional items include:		
Gain on disposal of Mansfield Hall	(1,788)	0
Gain on disposal of land for Enterprise Centre	(1,049)	0

Council members do not receive remuneration or fees in respect of their services as Council members. The expenses of Council members incurred in the performance of their duties including attendance at Council meetings are reimbursed by the University. All such reimbursements are subject to approval by the Secretary to the Council. During the year 3 members of Council were reimbursed in connection with travel and subsistence expenses incurred (2009: 5).

During the year the University sold the land and buildings on the site of Mansfield Hall which is adjacent to the London Road campus. The site was surplus to the University's requirements. The net proceeds were £15,387,000 giving rise to a profit on disposal of £1,788,000.

During the year the University granted a 150 year lease of a section of land on the Whiteknights campus to a developer. An upfront premium of £1,500,000 was received. The developer will construct an Enterprise Centre on the site which it will lease to the University for 25 years. The net proceeds of £1,049,000 being the premium less associated disposal costs has been credited to profit on disposal during the year to reflect the underlying substance of the two leases which is that of a sale and operating leaseback. This reflects the very long period of the lease of the land and the proximity of the premium to the fair value of the land.

10 Taxation	Consolidated	
	2010 £'000	2009 £'000
UK Corporation tax	0	8
Overseas tax	(25)	0
Over provision in previous year	0	(29)
	(25)	(21)

11 Business combinations

On 1 August 2009, the University of Reading became the sole member and assumed management control of Reading Real Estate Foundation, a registered charity, along with its subsidiary company, RREF Limited, for nil consideration. This has been accounted for as an acquisition in accordance with FRS 6. The total fair value of the assets acquired gave rise to negative goodwill in the Group which has been taken to the income and expenditure account in line with the University's accounting policy.

The fair value of the assets and liabilities of Reading Real Estate Foundation which were acquired by the University are set out below. There was no difference between the book values and the fair values. The fair values of the assets and liabilities of RREF Limited were not material.

	Fair value £'000
Fixed assets	
Investments	3
Current assets	
Debtors	21
Cash	252
	273
Current liabilities	
Creditors	(26)
	(26)
Net assets	250
Acquisition costs	0
Goodwill	250

The results for Reading Real Estate Foundation for the two reporting periods prior to the acquisition were:

	7 months to 31 July 2009 £'000	Year to 31 December 2008 £'000
Income	102	227
Expenditure	(115)	(198)
Net movement in funds before taxation	(13)	29
Taxation	0	0
Net movement in funds after taxation	(13)	29

During the previous year the University combined with Henley Management College, a registered charity, to form one entity. This gave rise to negative goodwill of £16,558,000 in the Group which was taken to the income and expenditure account.

12 Tangible fixed assets

Consolidated						
	Land and buildings	Plant and machinery	Equipment	Assets in the course of construction	Special collections	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2009	310,296	6,470	53,968	37,583	23,097	431,414
Additions	6,089	279	9,697	70,708	0	86,773
Disposals	(8,726)	0	(4,840)	0	0	(13,566)
Transfers	11,547	0	111	(11,527)	0	131
At 31 July 2010	319,206	6,749	58,936	96,764	23,097	504,752
Depreciation						
At 1 August 2009	73,511	1,702	27,665	0	0	102,878
Charge for the year	9,012	355	6,405	0	0	15,772
Disposals	(4)	0	(4,650)	0	0	(4,654)
Transfers	0	0	58	0	0	58
At 31 July 2010	82,519	2,057	29,478	0	0	114,054
Net book value at 31 July 2010	236,687	4,692	29,458	96,764	23,097	390,698
Net book value at 31 July 2009	236,785	4,768	26,303	37,583	23,097	328,536
University						
	Land and buildings	Plant and machinery	Equipment	Assets in the course of construction	Special collections	Total
Cost or valuation	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2009	283,181	6,458	53,789	37,583	22,947	403,958
Additions	6,089	280	9,696	70,326	0	86,391
Disposals	(8,712)	0	(4,719)	0	0	(13,431)
Transfers	11,527	0	0	(11,527)	0	0
At 31 July 2010	292,085	6,738	58,766	96,382	22,947	476,918
Depreciation						
At 1 August 2009	69,301	1,690	27,497	0	0	98,488
Charge for the year	8,184	356	6,390	0	0	14,930
Disposals	0	0	(4,532)	0	0	(4,532)
At 31 July 2010	77,485	2,046	29,355	0	0	108,886
Net book value at 31 July 2010	214,600	4,692	29,411	96,382	22,947	368,032
Net book value at 31 July 2009	213,880	4,768	26,292	37,583	22,947	305,470

Included in land and buildings above is land which is not depreciated as follows:

	Consolidated		University	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Land not depreciated	15,677	23,725	7,677	15,725

Finance leases

The net book value and depreciation for the year of equipment held under finance leases and included in the table above are as follows:

	Consolidated & University	
	2010	2009
	£'000	£'000
Net book value	0	949
Depreciation charge for the year	949	474

13 Investment properties

	Consolidated & University	
	2010 £'000	2009 £'000
At 1 August	27,117	32,403
Additions	848	2,461
Disposals	(5,469)	0
Reduction in value of properties in year	(512)	(7,747)
At 31 July	21,984	27,117

The University holds a number of investment properties including both commercial and residential. These properties were valued by a firm of independent valuers. All properties were valued at 31 July 2010 in accordance with the RICS appraisal and valuation manuals.

14 Investments

	Consolidated		University	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Subsidiary companies	0	0	50	50
Trade investments – listed				
Genus plc	30	21	30	21
TR Property Investment plc	3	0	0	0
Trade investments – unlisted				
AdsFab Limited	5	5	5	5
The Cascade Fund LLP	100	100	0	0
Subsidiary investments in spin-out companies	1	1	0	0
Net book value at 31 July 2010	139	127	85	76

These investments have been stated at market value where they are listed on a recognised stock exchange. Where there is no active market the investments have been stated at cost.

15 Endowment assets

	Consolidated		University	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Balance at 1 August	71,638	90,240	7,119	6,674
Additions / (disposals)	5,845	(1,592)	1,550	1,477
Appreciation / (depreciation) on revaluation of investments	5,241	(5,594)	411	(673)
Appreciation / (depreciation) on revaluation of investment properties	2,359	(4,165)	0	0
(Increase) / decrease in net current liabilities	(245)	241	1	0
(Decrease) in cash balance	(1,245)	(337)	(47)	(1,386)
(Decrease) / increase in balance held by University	(4,775)	(7,155)	(1,002)	1,027
Balance at 31 July	78,818	71,638	8,032	7,119
Represented by:				
Tangible assets				
Land and property	4,398	1,848	0	0
Investment properties	23,588	21,228	0	0
Investments	55,996	47,461	10,001	8,040
Other assets				
Cash held by investment managers for the endowment trusts	0	1,245	0	47
Other net current liabilities	(456)	(211)	1	0
Funds due (to) / from the University	(4,708)	67	(1,970)	(968)
	78,818	71,638	8,032	7,119

15 Endowment assets (continued)

Consolidated					
	Unrestricted permanent	Restricted expendable	Restricted permanent	Restricted total	Total
	£'000	£'000	£'000	£'000	£'000
Opening balance					
Capital value	1,293	65,067	3,385	68,452	69,745
Accumulated income	25	232	1,636	1,868	1,893
At 1 August	1,318	65,299	5,021	70,320	71,638
Net additions	0	(381)	(112)	(493)	(493)
Gain on disposal of assets	97	1,175	286	1,461	1,558
Surplus of income over expenditure / (expenditure over income)	60	(1,677)	132	(1,545)	(1,485)
Increase in value of endowment investment properties	0	2,359	0	2,359	2,359
Increase in value of endowment asset investments	92	4,879	270	5,149	5,241
At 31 July	1,567	71,654	5,597	77,251	78,818
Represented by:					
Capital value	1,483	71,427	3,932	75,359	76,842
Accumulated income	84	227	1,665	1,892	1,976
	1,567	71,654	5,597	77,251	78,818
University					
	Unrestricted permanent	Restricted expendable	Restricted permanent	Restricted total	Total
	£'000	£'000	£'000	£'000	£'000
Opening balance					
Capital value	1,293	553	3,385	3,938	5,231
Accumulated income	25	227	1,636	1,863	1,888
At 1 August	1,318	780	5,021	5,801	7,119
Net additions	0	0	(112)	(112)	(112)
Gain on disposal of assets	97	44	286	330	427
Increase in value of endowment asset investments	92	49	270	319	411
Surplus of income over expenditure / (expenditure over income)	60	(5)	132	127	187
At 31 July	1,567	868	5,597	6,465	8,032
Represented by:					
Capital value	1,483	643	3,932	4,575	6,058
Accumulated income	84	225	1,665	1,890	1,974
	1,567	868	5,597	6,465	8,032

16 Debtors

	Consolidated		University	
	2010	2009	2010	2009
	£'000	£'000	£'000	£'000
Amounts falling due within one year:				
Debtors	16,670	16,707	17,137	14,954
Amounts recoverable on research projects	6,195	7,776	6,195	7,776
Prepayments and accrued income	2,730	2,744	2,704	2,701
Amounts due from subsidiary undertakings	0	61	4,301	2,229
	25,595	27,288	30,337	27,660
Amounts falling due after more than one year:				
Debtors – other	380	180	361	180
	25,975	27,468	30,698	27,840

17	Current asset investments	Consolidated		University	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
	At 1 August	6,029	9,675	7,064	18,892
	Reduction in investments	(1,277)	(3,536)	(5,165)	(11,718)
	Changes in market value	77	(110)	77	(110)
	At 31 July	4,829	6,029	1,976	7,064

18	Creditors: amounts falling due within one year	Consolidated		University	
		2010 £'000	2009 £'000	2010 £'000	2009 £'000
	Unsecured loans	60,000	12,000	60,000	12,000
	Overdraft	5,463	0	7,398	0
	Payments received in advance	6,269	9,954	6,757	9,893
	Research grants received on account	15,889	14,936	15,889	14,936
	Trade creditors	5,443	11,561	5,419	11,561
	Social security and other taxation payable	3,216	3,240	3,111	2,966
	Other creditors	10,631	10,197	11,108	15,447
	Accruals and deferred income	13,982	8,624	12,062	8,161
	Obligation under finance leases	0	499	0	499
	Amounts due to subsidiary undertakings	0	0	1,328	2,415
		120,893	71,011	123,072	77,878

In June 2009 the University entered into a £60m sterling loan facility with Barclays Bank PLC. This loan consists of an initial three year revolving facility, with a choice of a fixed rate, or a set margin above LIBOR for the term of each tranche drawn down. At the end of three years the University has the option of repaying the loan in full, or converting it to a term loan of either 30 years, or 37 years with a seven year payment holiday. The balance drawn down at 31 July 2010 was £60m (2009: £12m). Throughout the year, the University chose an interest rate of a set margin above LIBOR.

19	Creditors: amounts falling due after more than one year	Consolidated & University	
		2010 £'000	2009 £'000
	Unsecured loans	70,000	70,000
	Net finance costs to be amortised over the term of the unsecured loan	608	670
		70,608	70,670
	Analysis of loans and leases:		
	Due within one year	60,000	12,499
	Due between one year and two years	0	0
	Due between two and five years	0	0
	Due in five years or more	70,000	70,000
		130,000	82,499

The University issued a bond for £70m through a private placement facilitated by The Royal Bank of Scotland in May 2007. This loan is unsecured and is repayable in 2047 by a single payment of £70m. Interest is payable half yearly in arrears at a coupon rate of 5.42%.

20 Provisions for liabilities

	Consolidated		University	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
At 1 August	883	50	501	50
Brought in on acquisition	0	850	0	0
Transfer (to) / from income and expenditure account	(231)	451	0	451
Utilised in the year	(302)	(468)	(185)	0
At 31 July	350	883	316	501
Represented by:				
Reorganisation costs	266	451	266	451
Overseas tax provision	70	432	0	0
Other provisions	14	0	50	50
	350	883	316	501

Reorganisation costs provided for at 31 July 2010 consist of expenditure committed to in respect of restructuring the senior management of Henley Business School. The provision is expected to be utilised by 30 September 2010.

A liability to taxes in an overseas jurisdiction has been identified and a best estimate provided for in these financial statements. Settlement of this liability is expected within the next twelve months.

21 Deferred capital grants

	Consolidated			University		
	Funding Council £'000	Other grants £'000	Total £'000	Funding Council £'000	Other grants £'000	Total £'000
At 1 August 2009						
Buildings	77,346	27,834	105,180	77,346	44,767	122,113
Equipment	8,598	394	8,992	8,598	396	8,994
	85,944	28,228	114,172	85,944	45,163	131,107
Grants received in year						
Buildings	0	263	263	0	4,397	4,397
Equipment	0	450	450	0	450	450
	0	713	713	0	4,847	4,847
Disposals in year						
Buildings	0	0	0	0	0	0
Equipment	0	(48)	(48)	0	(48)	(48)
	0	(48)	(48)	0	(48)	(48)
Amortisation in year						
Buildings	(2,510)	(341)	(2,851)	(2,510)	(1,099)	(3,609)
Equipment	(1,034)	(309)	(1,343)	(1,034)	(309)	(1,343)
	(3,544)	(650)	(4,194)	(3,544)	(1,408)	(4,952)
At 31 July 2010						
Buildings	74,836	27,756	102,592	74,836	48,065	122,901
Equipment	7,564	487	8,051	7,564	489	8,053
	82,400	28,243	110,643	82,400	48,554	130,954

22 Reserves	Consolidated		University	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000
Income and expenditure reserve				
At 1 August	102,716	76,398	57,250	61,992
Surplus / (deficit) retained for the year	389	19,592	2,887	(5,563)
Difference between FRS 17 pension charge and cash contribution	(822)	821	(822)	821
Capital grants received from the University's Trusts in year	0	5,922	0	0
Exchange differences on overseas subsidiary undertakings	(43)	(17)	0	0
Transfer from revaluation reserve	4,899	0	4,899	0
Transfer from endowment reserve	960	0	579	0
At 31 July	108,099	102,716	64,793	57,250
Pension fund reserve				
At 1 August	(14,028)	(17,722)	(14,028)	(17,722)
Actuarial (loss) / gain	(8,422)	4,515	(8,422)	4,515
Interest cost	(1,470)	(1,299)	(1,470)	(1,299)
Difference between FRS 17 pension charge and cash contribution	2,292	478	2,292	478
At 31 July	(21,628)	(14,028)	(21,628)	(14,028)
Revaluation reserve				
At 1 August	39,946	47,816	39,946	47,815
Reduction in value of investment properties in year	(512)	(7,747)	(512)	(7,747)
Revaluation of investments in the year	85	(123)	85	(122)
Transfer to general reserves	(4,899)	0	(4,899)	0
Transfer from endowment reserves	34	0	34	0
At 31 July	34,654	39,946	34,654	39,946
Total reserves at 31 July	121,125	128,634	77,819	83,168

23 Reconciliation of (deficit) / surplus on continuing operations to net cash inflow from operating activities

	Consolidated	
	2010 £'000	2009 £'000
(Deficit) / surplus on continuing operations	(4,208)	3,502
Depreciation	15,772	13,194
Exchange differences	(43)	(17)
Deferred capital grants released to income	(4,194)	(3,532)
Endowment and investment income	(2,556)	(3,485)
Interest payable	4,063	4,543
Exceptional items	2,836	(578)
Difference between pension charge and cash contributions	(2,292)	(478)
Decrease / (increase) in stock	108	(118)
Decrease in debtors	6,271	7,838
Decrease in creditors	(3,418)	(231)
(Decrease) / increase in provisions	(533)	883
(Profit) / loss on disposal of fixed assets	(2,850)	2
Net cash inflow from operating activities	8,956	21,523

24 Returns on investments and servicing of finance

	Consolidated	
	2010 £'000	2009 £'000
Income from endowments	2,321	1,835
Other interest received	235	1,650
Interest paid	(2,593)	(3,244)
	(37)	241

25 Capital expenditure and financial investment

	Consolidated	
	2010 £'000	2009 £'000
Payments made to acquire tangible fixed assets	(86,773)	(53,412)
Payments made to acquire investment properties	(848)	(2,461)
Proceeds from sale of tangible fixed assets and investment properties	17,183	0
Net payments to acquire endowment fixed assets	(2,550)	(1,820)
Net payments to acquire endowment investments	(1,158)	461
Deferred capital grants received	713	25,163
	(73,433)	(32,069)

26 Aquisitions and disposals

	Consolidated	
	2010 £'000	2009 £'000
Acquisition of Henley Management College	0	(600)
Acquisition of Reading Real Estate Foundation	0	0
Net cash acquired	252	3,413
	252	2,813

27 Management of liquid resources

	Consolidated	
	2010 £'000	2009 £'000
Decrease in current asset investments	1,200	3,646
	1,200	3,646

28 Financing

	Consolidated	
	2010 £'000	2009 £'000
Unsecured loans	48,000	12,000
Finance lease	0	(488)
Amortisation of finance costs	(62)	(246)
	47,938	11,266

29 Analysis of changes in net debt

	1 August 2009 £'000	Cash flows £'000	Acquisitions £'000	31 July 2010 £'000
Consolidated				
Cash at bank and in hand	8,391	(8,643)	252	0
Overdraft	0	(5,463)	0	(5,463)
Cash held in endowments by fund managers	1,245	(1,245)	0	0
	9,636	(15,351)	252	(5,463)
Current asset investments	6,029	(1,200)	0	4,829
Debt due within one year	(12,000)	(48,000)	0	(60,000)
Debt due after one year	(70,670)	62	0	(70,608)
	(67,005)	(64,489)	252	(131,242)

30 Lease obligations

	Land and buildings £'000	Plant and equipment £'000	2010 £'000	Land and buildings £'000	Plant and equipment £'000	2009 £'000
Consolidated						
Operating leases due:						
within one year	8	195	203	0	189	189
in two to five years	61	390	451	0	378	378
	69	585	654	0	567	567
	Land and buildings £'000	Plant and equipment £'000	2010 £'000	Land and buildings £'000	Plant and equipment £'000	2009 £'000
University						
Operating leases due:						
within one year	0	195	195	0	189	189
in two to five years	0	390	390	0	378	378
	0	585	585	0	567	567

31 Pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Reading Employees' Pension Fund (UEPF). USS provides benefits based on final pensionable salary for academic and related employees for all UK universities. The UEPF scheme provides benefits for other members of University staff. Contributions are also paid to the Teachers Pension Scheme (TPS) for a small number of staff.

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

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

Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest triennial actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2010 are also included in this note.

The triennial 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 (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.4% per annum (which includes an additional assumed investment return over gilts of 2% per annum), salary increases would be 4.3% per annum (plus an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables used were as follows:

Male members' mortality	PA92 MC YoB tables – rated down 1 year
Female members' mortality	PA92 MC YoB tables – no age rating

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 65 are:

Males (females) currently aged 65	22.8 (24.8) years
Males (females) currently aged 45	24.0 (25.9) years

31 Pension schemes (continued)

At the valuation date, the value of the assets of the scheme was £28,842.6m and the value of the scheme's technical provisions was £28,135.3m indicating a surplus of £707.3m. The assets were therefore sufficient to cover 103% 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. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 107% funded; on a buy-out basis (ie assuming the scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, using an AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions except that the valuation rate of interest assumed asset outperformance over gilts of 1.7% per annum (compared to 2% per annum for the technical provisions) giving a discount rate of 6.1% per annum; also the allowance for promotional salary increases was not as high. There is currently uncertainty in the sector regarding pay growth. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

The scheme-wide contribution rate required for future service benefits alone at the date of the valuation was 16% of pensionable salaries and the trustee company, on the advice of the actuary, increased the institution contribution rate to 16% of pensionable salaries from 1 October 2009.

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2010 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 91% (a deficit of £3,065 million). Compared to the previous 12 months, the funding level has improved from 74% (as at 31 March 2009) to 91%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the two years and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS 17 basis, using an AA bond discount rate of 5.6% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2010 was 80%. An estimate of the funding level measured on a buy-out basis at that date was approximately 57%.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis at the date of the last triennial valuation 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 pensions increases	Increase / decrease by 0.5%	Increase / decrease by £1.5bn
Rate of salary growth	Increase / decrease by 0.5%	Increase / decrease by £0.7bn
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6bn

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a major exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically 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 needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities.

Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its investment team, 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 although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

The next formal triennial actuarial valuation is due at 31 March 2011. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

At 31 March 2010, USS had over 135,000 active members and the University had 1,913 active members participating in the scheme.

31 Pension schemes (continued)

University of Reading Employees' Pension Fund (UEPF)

The University participates in the UEPF, which is a funded defined benefit pension scheme in the UK where contributions are held in a separate trustee-administered fund. A full actuarial valuation was carried out at 31 July 2008 and updated to 31 July 2010 by a qualified independent actuary. The service cost has been calculated using the projected unit method.

The University paid contributions at a rate of 24.1% of salary throughout the year and an additional amount of £1.5m. From 1 August 2010 the rate remains at 24.1% with an additional amount of £1.75m for the year ended 31 July 2011.

	2010 £'000	2009 £'000
Analysis of movement in benefit obligation		
At 1 August	95,023	98,451
Current service cost	2,745	3,493
Interest cost	5,997	5,759
Member contributions	925	899
Age related rebates	346	663
Past service cost	333	79
Benefits paid	(4,050)	(3,072)
Actuarial losses / (gains)	13,294	(11,249)
At 31 July	114,613	95,023
Analysis of movement in scheme assets		
Fair value at 1 August	80,995	80,729
Expected return on scheme assets	4,527	4,460
Actuarial gains / (losses)	4,872	(6,734)
Employer contribution	5,370	4,050
Member contributions	925	899
Age related rebates	346	663
Benefits paid	(4,050)	(3,072)
Fair value at 31 July	92,985	80,995
Fair value of assets less benefit obligation	(21,628)	(14,028)
Components of pension cost		
Current service cost	2,745	3,493
Interest cost	5,997	5,759
Expected return on scheme assets	(4,527)	(4,460)
Past service cost	333	79
Total pension cost recognised in the income and expenditure account	4,548	4,871
Actuarial losses / (gains) immediately recognised	8,422	(4,515)
Total pension cost recognised in the statement of total recognised gains and losses	8,422	(4,515)
Cumulative amount of actuarial losses immediately recognised	32,155	23,733
Scheme assets		
The weighted-average asset allocation was as follows:		
Equities	54,008	48,042
Bonds and gilts	32,387	27,904
Property	3,990	1,934
Other	2,600	3,115
	92,985	80,995

To develop the expected long-term rate of return on assets assumption, the University considered the current level of expected returns on risk-free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return for each asset class was then weighted based on the actual asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the expected return assumptions below.

31 Pension schemes (continued)

	2010 £'000	2009 £'000
Actual return on scheme assets	9,399	(2,274)

Weighted average assumptions used to determine benefit obligations at:

	31 July 2010	31 July 2009
Discount rate	5.45%	6.30%
Rate of increase in salaries	5.00%	5.30%
Rate of increase in pensions in payment (6% lpi)	3.50%	3.80%
Rate of increase in pensions in deferment		
5% lpi	3.50%	3.80%
2.5% lpi	2.50%	2.50%

Weighted average assumptions used to determine net pension cost for year

	2010	2009
Discount rate	6.30%	5.80%
Expected long-term return on scheme assets	5.50%	5.44%
Rate of increase in salaries	5.30%	5.20%
Rate of increase in pensions in payment (6% lpi)	3.80%	3.70%
Rate of increase in pensions in deferment		
5% lpi	3.80%	3.70%
2.5% lpi	2.50%	N/A

Weighted average life expectancy for mortality tables used to determine benefit obligations at:

	31 July 2010 Number	31 July 2009 Number
Male pensioner (life expectancy at age 65)	22.4	22.0
Female pensioner (life expectancy at age 65)	25.5	24.9
Male non-retired member (life expectancy at age 65)	23.5	22.6
Female non-retired member (life expectancy at age 65)	26.8	25.4

Five year history

	2010 £'000	2009 £'000	2008 £'000	2007 £'000	2006 £'000
Benefit obligation at 31 July	114,613	95,023	98,451	87,762	83,624
Fair value of scheme assets at 31 July	92,985	80,995	80,729	81,981	72,115
Deficit at 31 July	(21,628)	(14,028)	(17,722)	(5,781)	(11,509)
Difference between expected and actual return on scheme assets					
Amount (£'000)	4,872	(6,734)	(8,166)	4,241	4,628
Percentage of scheme assets	5.2%	(8.3%)	(10.1%)	5.2%	6.4%
Experience gains / (losses) on scheme liabilities					
Amount (£'000)	0	4,277	0	0	(2,022)
Percentage of scheme liabilities	0.0%	4.5%	0.0%	0.0%	(2.4%)

Pension costs

	Consolidated	
	2010 £'000	2009 £'000
Contributions to USS	11,471	10,183
Current and past service cost for UEPPF	3,078	3,573
Net pension fund finance costs	1,470	1,299
Contributions to other pension schemes	88	58
Total pension costs	16,107	15,113

Included in other creditors are unpaid pension contributions of £1,924,000 (2009: £1,704,000).

32 Capital and other commitments

Provision has not been made for the following capital commitments:-

	Consolidated & University	
	2010 £'000	2009 £'000
Commitments contracted for	34,386	37,935

These commitments arise from contracts included in the ongoing capital programme.

The University leases the Reading Student Village from UPP (Reading) Limited and Reading St Georges from UPP (Reading St Georges) Limited. These leases are co-terminus in October 2050. The lease payments are calculated based on contracted lettings for annually agreed room nominations. In the year to 31 July 2010 these payments totalled £4.6m (2009 – £4.0m).

33 Contingent liabilities

The University reclaimed all the VAT incurred in the construction of the agriculture building at Earley Gate which was completed in 1996 and was the subject of a lease and leaseback arrangement with a third party. HM Revenue and Customs challenged this recovery of VAT and raised an assessment to tax for £1.2m. The University appealed this assessment and the appeal stood behind the Halifax and Huddersfield cases. The Halifax case has been adjudicated upon and it is expected that the University will need to settle part of the assessment. Discussions over the amount to be paid are underway and no agreement has yet been reached, while the University takes further legal advice on its position in the light of further case law.

The University has agreed to provide financial support to the following wholly owned subsidiary companies which had net liabilities at 31 July 2010.

	Net liabilities at 31 July 2010 £'000
The University of Reading Science & Technology Centre Limited	404
Henley Management College (1945) Limited	1,890
Henley Business School (Hong Kong)	121
Henley Management College (South Africa)	528
Henley Management College New Zealand	95

34 Amounts disbursed as agent – Consolidated & University

	HEFCE Hardship Fund 2010 £'000	HEFCE Hardship Fund 2009 £'000	TDA Bursary 2010 £'000	TDA Bursary 2009 £'000
Balance brought forward at 1 August	31	10	566	249
Income				
Funding Council grants	183	214	1,726	2,057
Interest earned	1	6	0	0
	184	220	1,726	2,057
Expenditure				
Disbursed to students	(132)	(187)	(2,040)	(1,740)
Fund running costs	(31)	(12)	0	0
	(163)	(199)	(2,040)	(1,740)
Balance unspent at 31 July	52	31	252	566

The University acts only as a paying agent in relation to Funding Council hardship funds and TDA bursaries, distributing them to students. The funds received and related disbursements are therefore excluded from the income and expenditure account.

35 Disclosure of related party transactions

Due to the nature of the University's operations and the composition of the Council (being drawn from the local community, businesses and private organisations) it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of the Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. The following transactions were identified for disclosure under FRS 8:-

A senior member of University staff is a partner in Text Matters, an information design consultancy partnership. The University has paid £74,000 (2009 – £39,000) to this business for website design and other design services.

The University's financial statements include the following balances due from / (to) related parties

	2010 £'000	2009 £'000
Henley Business School (NZ) Ltd	0	61
Reading University Students' Union	406	220

The University paid the following grants to Reading University Students' Union

	2010 £'000	2009 £'000
Core block grant	873	873
Specific grant	14	14
	887	887

The results and net liabilities of Henley Business School (NZ) Ltd are not included in these financial statements on the grounds that they are not material to the Group.

The University holds 50 £1 shares in Whitfield Solar Limited and 1,000 1p shares in GradFutures Limited, both of which are University spin-out companies.

On 1 August 2009 the University assumed control of Reading Real Estate Foundation, a company limited by guarantee in the United Kingdom and a registered charity.

36 Subsidiary undertakings

The University's subsidiary companies, wholly-owned or effectively controlled by the University, are as follows. These are all registered in England & Wales with the exception of Henley Business School (Hong Kong) Ltd, Henley Business School Limited (NZ) and Henley Management College (South Africa) Section 21A.

Name of company	Principal activity
Henley Business School Limited	Not currently trading
Henley Business School (Hong Kong) Limited	Management education
Henley Business School (NZ) Limited	Management education
Henley Business School (South Africa) Limited	Not currently trading
Henley Management College (1945) Limited	Management education
Henley Management College (South Africa) Section 21A	Management education
New Technology Institute Thames Valley Region	Dormant
Reading Real Estate Foundation	Real estate education
RREF Limited	Dormant
Stockmint Limited	Dormant
The University of Reading Foundation	Dormant
The University of Reading Science & Technology Centre Limited	Property letting business
University of Reading (Greenlands) Limited	Hospitality and lettings at Greenlands, Henley
Whiteknights Energy Limited	Dormant
Whiteknights Farming Limited	Dormant
Witan College Limited	Dormant

