



The University of  
**Nottingham**

UNITED KINGDOM · CHINA · MALAYSIA

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# Financial Statements

for the year to 31 July 2011

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## Council Membership (1 August 2010 to 25 October 2011)

### President of Council and Pro-Chancellor

Mr Keith Hamill

### Vice-President of Council

Vacancy

### Members ex-Officio

The Chancellor

Professor Fujia Yang

Pro-Chancellor

Dr Hamid Mughal

The Vice-Chancellor

Professor David Greenaway

The Treasurer

Mr John Mills

Pro-Vice-Chancellors

Professor Karen Cox

Professor Alan Dodson

Professor Chris Rudd

Professor Saul Tendler

### Members of Staff

Professor John Atherton [from 2 March 2011]

Dr Magnus Brechtken [to 31 August 2010]

Professor David Clarke

Professor Michele Clarke [to 31 August 2010]

Professor Christine Hall

Professor Bob Lloyd [to 31 August 2010]

Dr Gethin Roberts [to 31 August 2010]

Dr Joel Segal

Professor Judith Still [to 31 August 2011]

### External members appointed by the Council

Ms Lyndsey Bainton

Dame Elizabeth Fradd

Ms Diana Garnham [to 31 July 2011]

Mr Colin Gillespie [from 1 August 2011]

Mrs Ann Greenwood [to 31 July 2011]

Mrs Asha Khemka

Mr John Robinson

Mr David Ross [from 1 August 2011]

Mr Brian Rossiter

Mr Stephen Russell [to 31 July 2011]

Mr John Saunders

Mr Steve Walton [from 1 August 2011]

Mr Neil Watkinson

Ms Louise Wilson

### Appointed by the Union of Students

From 1 August 2010:

Mr Will Vickers (President)

Mr Will Bickford Smith (Education Officer)

From 1 August 2011:

Mr Alex Corck-Adelman (President)

Ms Elizabeth Goddard (Education Officer)

### Other senior officers

The Registrar

Dr Paul Greatrix (Secretary to Council)

Pro-Vice-Chancellors

Professor Bob Webb, Professor Christine Ennew

Chief Financial Officer

Mr Chris Thompson

Director of Finance

Mr Martin Wynne-Jones

# Vice-Chancellor's Welcome



**This is an historic and exciting time for the University of Nottingham. We marked our 130th anniversary by launching the biggest fundraising campaign in our history – with the goal of raising £150m to change lives, tackle global issues and shape the future.**

Philanthropy has had a transformative impact on our University. In our case that began with an anonymous benefaction to support the establishment of Nottingham University College in 1881. In the 1920s it was accelerated dramatically by Sir Jesse Boot, our greatest benefactor, not just because of his generosity in providing the land and buildings to allow us to relocate University Park. He also had a grand vision for a provincial city. Sir Jesse had a pivotal role in transforming our University, and the need to aspire and inspire visionary activity continues to this day.

The success of **Impact: the Nottingham Campaign** will make a real difference to what we can achieve, not just in Nottingham, not just with current students and staff, but also on the major global challenges we face: challenges like global food security, sustainable energy technologies and meeting the needs of an ageing population. It will transform research programmes, enrich the student experience and enable the institution to make an even greater contribution to the global communities we serve.

Our work has already begun. A total of £50m has been raised thus far and I was privileged this summer to be part of an eleven-strong team of colleagues who undertook the 'Life Cycle', a sponsored cycle ride from John O'Groats to Land's End. Together we raised more than £221,000 for the University's Sue Ryder Centre for Research on Palliative and End of Life Care.

We are proud of what we achieved, but there remains a lot more work to do over the next five years.

The Campaign will enable us to maintain a high level of investment in our campuses. This year University Park has seen the unveiling of a new Engineering and Science Learning Centre, a new Mathematical Sciences Building and a new building for Humanities alongside a major programme of improvement and refurbishment. At Sutton Bonington we opened a new Bioenergy and Brewing Science Building and a new Gateway Building for our Schools of Biosciences and Veterinary Medicine and Science. At Jubilee Campus, three new landmark buildings are scheduled for completion in 2012.

These form part of a £90m investment in infrastructure to ensure our students and staff continue to enjoy the very best environment in which to work and study. That investment is mirrored at The University of Nottingham Ningbo China, which saw the opening of a new Science and Engineering Building; and at the University of Nottingham Malaysia Campus, where a new Crops for the Future Research Centre represents a significant investment in UNMC's infrastructure and research capacity.

All of our new buildings strive for excellence on measures of sustainability, and we continue to make great strides in our work to make the University of Nottingham a greener institution. This has yielded our first-ever reduction in carbon emissions year-on-year. Taken against a background of increasing student numbers, new infrastructure on campus and an extremely harsh winter, a reduction of 1,000 tonnes of carbon on the previous year is a considerable achievement. We aim to build on this in the years to come.

It has been very encouraging to see our campuses thronged with people on Open Days this year. That was also reflected in application figures for 2011 entry – more than 49,000 prospective undergraduates applied to study with us, making Nottingham one of the three most sought after universities in the UK.

But we are not complacent. As a University we must be ready to face the changes and challenges of 2012, and adapt to the rapidly changing landscape of higher education. This year we announced our intention to set student fees at £9,000 per year, following the recommendations set out in the Browne Review. Aligned with that, a broad and progressive package of financial aid will be available to students, to ensure the University continues to attract the best and the brightest, whatever their background. We will be offering an additional £4m to support new entrants in 2012; this adds to the £6m which the University already invests in these initiatives.

In addition to this direct financial support, the University will introduce a major increase in its current work with local schools, colleges and the community. The new Nottingham Potential programme is a bold and ambitious initiative to provide earlier, deeper and wider interventions for young people in Nottinghamshire, to raise attainment and progression to university. It will increase outreach significantly, particularly in regard to work with primary and lower-secondary school pupils.

We are entering a period of significant change in the English higher education system. But we do so from a position of strength, and we have every reason to look to the future with confidence. I look forward to working with colleagues as we open a new chapter in the history of our University.

**Professor David Greenaway**  
Vice-Chancellor

# Treasurer's Report

## Introduction

The Financial Statements comprise the consolidated results of the University and its trading subsidiaries and associates. The most significant subsidiary is Nottingham University Industrial and Commercial Enterprise Limited (Notice), which undertakes activities that, for commercial reasons, are channelled through a limited company. The subsidiaries gift all their taxable profits to the University.

## Financial highlights

	2011 £m	2010 £m
Funding Body Grants	145	144
Tuition Fees and Education Contracts	172	165
Research Grants and Contracts	100	105
Other Income	<u>94</u>	<u>97</u>
<b>Total Income</b>	<b><u>511</u></b>	<b><u>511</u></b>
<b>Surplus for the year</b>	<b><u>33</u></b>	<b><u>37</u></b>
<b>Total Net Assets</b>	<b><u>363</u></b>	<b><u>310</u></b>

## Business overview

The University of Nottingham continues to be one of the leading research and teaching institutions in the world. In the recently published Sunday Times University Guide it states "of all the British universities, Nottingham has embraced internationalisation the most.....one in eight undergraduates come from outside the European Union and the overseas campuses in Ningbo, China and Semenyih, near Kuala Lumpur, Malaysia, offer UK-based students the chance to undertake some of their studies (in English) while living abroad".

The University posted an excellent surplus last year at £37million which included a one-off lease premium of £6million so the underlying performance has improved with a surplus of £33million in 2011. Last year's Financial Statements noted the actions being taken to reduce costs and improve efficiency the level of this year's surplus reflects the success of those actions.

Income has remained flat at £511million with a reduction in research income reflecting the pressures on funding in the public sector. Tuition fee growth remains strong with international fees increasing by nearly 8%. The diversified nature of the University's income helps to provide resilience in the face of the changes that are taking place in University funding.

Research awards for the year of £130million were down on the record of £150million last year. Uncertainty over Research Council funds and other Government support account for majority of the drop although this has been offset by Industry and Commerce awards which nearly doubled to over £21million.

Control over costs remains a key objective to support the generation of appropriate levels of surplus required to meet the continuing University need to invest in the infrastructure, student experience and staff.

## Environment and risks

Following the publication of the Browne Review in October 2010 and the Higher Education White Paper in June 2011, the way universities are funded will change significantly from 2012. Reductions in Government funding will take place against a backdrop of universities being able to charge undergraduate HEU students up to £9,000 per annum subject to having their Access Agreement approved by the Office for Fair Access (OFFA). This entails committing a significant amount of the additional fees in new bursaries and scholarships. The University announced earlier this year that it planned to charge £9,000 per annum for all of its undergraduate courses and received the necessary clearance from OFFA in July.

The University recognises that student demands and expectations will rise as increased fees are charged and future budgets and plans therefore include additional spend on bursaries as well as on student facilities and University infrastructure.

Both international campuses continue to grow with nearly 8,000 students currently enrolled. China continues to deliver a surplus with Malaysia returning to breakeven. A further investment is due to be made in Malaysia through a rights issue to fund additional student accommodation on the campus.

The actuarial valuation for the Nottingham Contributory Pension and Assurance Scheme (CPAS) was published in 2009 with the actuarial deficit increasing from £26.4million to £50.5million. Additional employer contributions have subsequently been agreed between the Trustees and the University and a formal recovery plan has been accepted by the Pensions Regulator. The actuarial valuation as at 31 July 2011 is currently being undertaken. On an FRS17 basis, the CPAS deficit increased marginally to £53million (2010: £52million). The FRS17 accounting adjustments have reduced the costs charged in the accounts by £2.3million (2010: £2.4million).

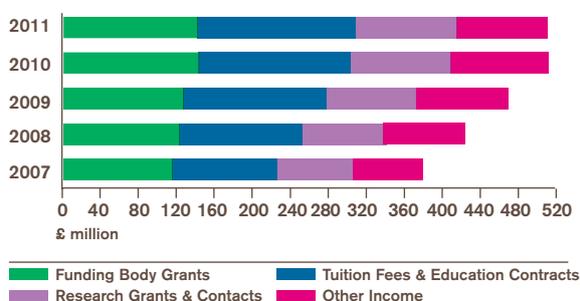
The next actuarial valuation for the Universities Superannuation Scheme (USS) as at 31 March 2011 is yet to be published although increased employer contributions of 2% were introduced from October 2009 in expectation of a significant deficit, whilst changes were also confirmed to increase existing members' contributions to 7.5% and introduce a Career Average section for new employees from 1 October 2011. USS does not appear on the University balance sheet as the University's share of the assets and liabilities are not separately identified.

The revised Risk Register, now called the Strategic Risk Assessment was submitted to and approved by both Audit Committee and Council during the year. This included an update on the risk mitigation activities for the six highest gross risk items.

Treasurer's Report

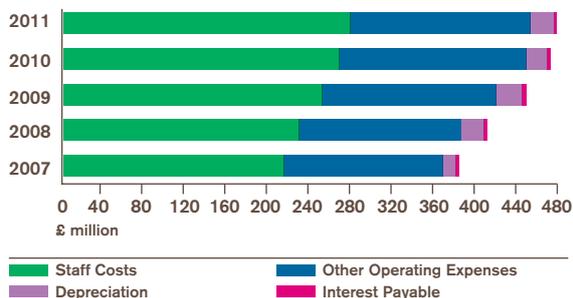
### Income analysis

Tuition fees are the largest income stream representing nearly 34% of total income. Research income has fallen slightly due to reduced activity by research funders which reflect uncertainty over their future income levels and tighter control over overheads paid on research contracts. Other income in 2010 included a one-off £6million receipt for a lease extension on certain student accommodation.

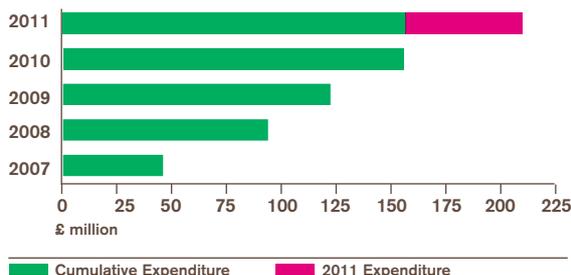


### Expenditure analysis

Staff costs represent 58% of University total costs. Within staff costs over 76% is for Teaching and Research staff. Payroll costs rose by 1.6% largely reflecting the increase in average staff numbers of 1.3%. Other operating costs have reduced by £1million reflecting the measures put in place over recent years, across the University to improve efficiency and deliver savings. Cost control remains a key University challenge as the pressure on funding increases.



### Capital expenditure and financing



The University has invested consistently in its teaching and research infrastructure and student facilities, averaging approximately £44million per annum over the last five years with investment in 2011 being £62million. The largest spend during the year has been on projects funded by HEFCE Capital Investment Fund (CIF), principally to improve research facilities and acquire additional equipment.

Specific major projects during the year were:

- £7.3million on the Engineering and Sciences Learning Centre and £6.5million on a new Humanities building, both completed in September 2011
- £5.7million on the new building for the School of Mathematics, completed in August 2011
- £4.8million on the Bioenergy and Brewing Science Building building at Sutton Bonington, completed May 2011

Construction commenced during the year on the following buildings all due for completion in 2012/13:

- Hotel that will improve University facilities and also expand the offering from the East Midlands Conference Centre (£23million)
- Aerospace Research Centre (£5million)
- Institute of Mental Health (£8million)

The total capital expenditure in 2010/11 was funded by £15million of capital grants with the balance from working capital.

Cash flow from operating activities remained strong at £44million (2010: £46million). Net cash inflow was breakeven for the year compared with a net inflow of £36million in 2010. This principally reflects the increased capital spend during the year. Continued higher levels of surplus will be required in future years to generate cash for the required investment in the University infrastructure given the expected reduction in Government funding for capital projects.

At 31 July 2011 the University had bank loans and overdraft of £16.6million off-set by £7.2million of cash and short-term deposits (2010: loans of £11.2million off-set by £5.4million of cash and short-term deposits). CIF receipts unspent at the 31 July 2011 of approximately £1.8million (2010: £18million) have contributed to maintaining a low debt figure.

Treasurer's Report

The University has a committed facility to borrow up to £119million, consisting of £104million revolving credit facility plus £15million multi-option facility. The University's loans with the Royal Bank of Scotland are at a rate linked to LIBOR. The revolving credit facility is amortised, quarterly over 25 years which commenced from October 2010.

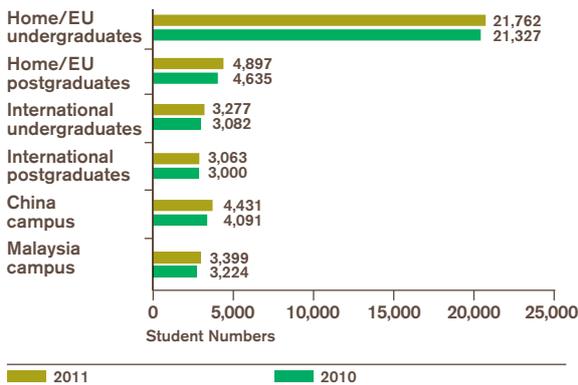
The University has the ability to drawdown and repay its borrowings as required to manage its cash requirements. The University's approach is to minimise its borrowings thereby carrying limited cash reserves. Any surplus cash is only invested for short periods with counterparties approved by the University's Finance Committee, with a maximum of £10million being deposited with any counterparty.

**Student analysis**

Student growth reflects the investment in the core infrastructure at the campuses in the UK, Malaysia and China. Total students registered in 2011 exceeded 40,000, with 22% (2010: 22%) being postgraduate students across all campuses. There has been positive growth across all categories of student with both international campuses, in particular, showing good growth with nearly 8,000 students now enrolled.

The University maintained its overall satisfaction score at 87% in the National Student Survey this year and saw improvements in 17 out of the 22 questions. The improvements reflect continued staff efforts to respond to the student feedback highlighted in the survey in previous years.

**Student numbers**



**Key achievements**

The University's place among the world's top 75 higher education institutions was again confirmed in the QS World University Rankings for 2011/2012. In the latest results Nottingham is 74th worldwide and 14th out of just 37 UK universities in the top 300, reflecting the University's acknowledged excellence in teaching, learning and research.

The QS World University Rankings sought the views of over 33,000 global academics and 16,000 graduate employers – the largest survey of its kind ever conducted - Nottingham

scored particularly highly with employers where we are ranked 15th equal in the world.

Research awards won during the year include over £9million from the European Regional Development Fund (ERDF) for three projects:

- Accelerating a Low Carbon Economy
- Aerospace Technology
- Food and Biofuel Innovation

Other major awards have been won covering health, food sciences and sustainability.

**Public benefit**

The University is committed to providing a truly international education, inspiring our students, producing world-leading research and benefitting the communities around our campuses in the UK, China and Malaysia. Our purpose is to improve life for individuals and societies worldwide. By bold innovation and excellence in all that we do, we make both knowledge and discoveries matter.

As a charity, the University is able to provide financial assistance to support those students who without that help may otherwise be unable to attend.

The University's Missions and Values states:

*"We are committed to a varied, accessible and stimulating learning environment, capable of developing students' knowledge, skills and employability, and will educate the very best students, regardless of country of origin or financial need, and offer a global learning experience."*

The aim is to enrol and retain, on all UK-based courses, UK students from backgrounds currently under-represented at the University.

The University offers an extensive range of scholarships to encourage academic excellence, aid diversity, and offer real financial assistance in cases of hardship.

For home students there are a wide range of bursary and scholarship schemes. These funds provide an additional source of non-repayable financial help. They are paid direct to the student on top of any other student loans or grants received.

International students can take advantage of one of the UK's largest scholarship portfolios. As well as scholarships run by the International Office, many of the University's Schools and Departments also have their own scholarships that can be applied for.

In 2011 over 8,000 (2010: 7,500) awards were made to students for bursaries, scholarships and hardship awards totaling over £7.5million (2010: nearly £7million).

## Treasurer's Report

The Nottingham University Samworth Academy (NUSA) opened in September 2009 in one of the city's most deprived areas. As co-sponsor, the University has made a major contribution through active involvement in governance, continuing professional development for staff, enrichment of the Academy's chosen specialism of Health and Science, and support for key target areas of NUSA's Development Plan. This special partnership provides the University with the opportunity to design, pilot and test innovative collaborations that can be replicated elsewhere, to support research around the process of school improvement, and to challenge the barriers to engagement with higher education. The University continues to engage families, employers and community partners, with support from a range of our staff and students. There is now strong evidence of attitudinal change amongst pupils, with improved attendance, and enrolments at the Academy have risen. The GCSE results published in August 2011 saw the proportion of pupils achieving 5 A to C grades, including English and Mathematics, increase from 21% to 44%, representing one of the most significant rates of improvement anywhere in the country.

OFFA has recommended that universities recruiting low proportions of low-income students should spend between 30% and 35% of additional fees income from the 2012 entry cohort on Widening Participation. This is in addition to the expenditure from fees income from earlier cohorts, which is calculated differently. The plan approved by OFFA shows a total proposed Widening Participation spend of £10.6m in 2012-13.

It is also noted in the Plan that the University of Nottingham has made excellent progress in widening participation over the last six years with 22.9% of UK students entering the University in September 2009 from low-income backgrounds, up from 17% in 2004.

Karnival, The University of Nottingham Students' Union fundraising organisation, raised a staggering £1.4 million for charity, up on the previous record in 2010 of £1.2million. The money goes to the country's largest and best-known charities, but also offers the opportunity for smaller charities in and around Nottingham to access aid through an appeals fund. Karnival not only helps financially, but also physically through the 'Kontakt' programme where student representatives offer vulnerable groups such as terminally ill children, disadvantaged youths and widows new, fun and worthwhile day trips.

In research, at the heart of everything we do is our commitment to meet the future research needs of society, industry and government.

The University is an integral part of the local community and its campuses provide high quality amenities from theatre and museums to sports facilities and impressive gardens.

### Credit rating

The University was again delighted to maintain its AA- Credit Rating from Standard & Poors, announced in August 2011.

The report recognised Nottingham's strong academic profile, rising student demand and flexibility to raise tuition fees to cover reductions in government funding.

This size and diversity of its undergraduate and postgraduate programmes provides strong protection against fluctuations in subject popularity, as do its demanding entry standards.

The Agency noted its major rating factors as:

#### Strengths:

- High academic entry standards and strong student demand
- The flexibility to charge £9,000 tuition fees for home and EU undergraduates in 2012, which should at least compensate for the reduction in funding council grants
- Large student base of approximately 32,000 on its U.K. campus, with diverse academic offering.

#### Weaknesses:

- Some uncertainty over impending reforms, and constraints on public-sector funding over the medium-to-long term
- Access to liquidity relies on committed facilities arranged with a single lender.

### Compliance

The University is committed to following best practice in all aspects of corporate governance. This year's statement appears on page 6.

### Conclusion

The University has had another very successful year, delivering a strong surplus and maintaining low levels of debt whilst continuing to invest for the future. This is partly due to the continuing keen focus on managing the cost base. The University recognises the challenges but also the opportunities faced within the sector and is confident that it is well positioned, with clear strategies to meet those challenges and to continue to deliver excellence in teaching, research and the student experience.

**John Mills,**  
**Treasurer & Chair of Finance Committee**  
25 October 2011

# Governance

## Responsibilities of the University's Council and Structure of Corporate Governance

The University is a corporation formed by Royal Charter with charitable status. The Council is the University's governing body and, amongst other matters, it is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The University is committed to best practice in corporate governance. The Council notes the Combined Code on Corporate Governance and the HEFCE Accounts Direction requirements. In addition the University has had regard to the Governance Code of Practice and General Principles (the Code) published by the Committee of University Chairs (CUC). In response to the Code and in accordance with overall good governance the Council periodically reviews the role of Council and its effectiveness. The most recent review of Council effectiveness took place in 2009 and confirmed that governance arrangements were well aligned with the Code. A number of enhancements have been introduced following the review and a reduction in the size of the Council, to 25 members, agreed for introduction with effect from the start of the 2011-12 session. Further changes to Council's operations are being introduced arising from the Effectiveness Review and as a result of changes to the University's Charter and Statutes as approved by Privy Council on 21 July 2010.

In order to comply with the Code the Council approved the following Statement of Primary Responsibilities in March 2010 (subsequently modified following changes to the Charter and Statutes in July 2010):

### **Statement of the role and primary powers and responsibilities of University Council:**

#### **1. Role**

*The University Council is the governing body of the University. It is responsible for overseeing the University's activities, determining its future direction and developing and sustaining an environment in which its mission is achieved and learning is fostered.*

*The Council is responsible for ensuring compliance with the Charter, Statutes and Ordinances regulating the University and its governance framework. Subject to these it makes all final decisions on matters of fundamental concern to the University.*

#### **2. Membership and meetings**

*Council has a clear majority of external members who are independent of the University. Its membership also includes the Vice-Chancellor and members drawn from the Pro Vice Chancellors. Recognising the distinctive characteristics and requirements of a University, the Council also includes members elected by and from the Senate and student members, the President of the Students' Union and one other*

*student. Council meetings are also attended by the Registrar and Chief Financial Officer.*

*Members of Council must conduct themselves in accordance with accepted standards of behaviour in public life - including those relating to conflicts of interest. These require selflessness, integrity, objectivity, accountability, openness, honesty and leadership.*

*All members of Council, including Senate and student members, are under an obligation to make decisions solely in accordance with the best interests of the University and should not act in accordance with the interests or delegations of the constituencies by which they are elected. Student members are not present when specific matters relating to individual members of staff and their remuneration or individual students are discussed.*

*Council normally meets five times a year. The Registrar is the Secretary to Council.*

*External members are elected for terms of four years and may serve for two terms, although if elected as an Officer of the University their previous service is disregarded for the purpose of calculating terms. They retire at the age of seventy.*

#### **3. Primary powers and responsibilities**

*Overall powers and responsibilities*

- 3.1 To approve the mission and strategy of the University and its academic and business plans;*
- 3.2 To ensure that processes are in place to monitor the performance and effectiveness of the University against plans and agreed performance indicators and benchmarking against comparable Universities;*
- 3.3 To appoint the Vice-Chancellor, after considering a report from a Joint Committee of Council and Senate (which is chaired by the President of Council) and to put in place arrangements for monitoring the Vice-Chancellor's performance and providing feedback;*
- 3.4 To delegate authority to manage the University to the Vice-Chancellor, who is the Chief Executive of the University. This includes its corporate, financial, estate and personnel management. The Council will regularly review the policies, procedures and limits for delegated authorities;*
- 3.5 To act as the principal financial and business authority of the University; including approving annual audited financial statements, appointing external auditors, approving budgets and financial plans, approving transactions, contracts, leases, investments and banking arrangements (subject to approved delegated limits), ensuring the maintenance of proper accounting records, having overall responsibility for the University's assets, property and estate, having overall responsibilities for the University's liabilities, including pension liabilities (subject to approved delegated limits) and acting as trustee for legacies endowments, bequests or gifts;*

## Governance

- 3.6 To ensure the establishment and monitoring of effective systems of internal control and accountability, including financial and operational controls and the management of conflicts of interest. To establish appropriate procedures for internal audit and monitor the results of internal audit work;
- 3.7 To ensure procedures for assessing risk and risk mitigations and controls, consider the assessments arising and ensure that appropriate actions are taken to respond to risk;
- 3.8. To receive reports on and consider teaching and research and the welfare and development of students;
- 3.9 To be the employing authority for all of the staff employed by the University and to approve and monitor its human resources strategy and practices;
- 3.10 To establish and receive reports from a Remuneration Committee, comprising external members, which determines the remuneration of the Vice-Chancellor, approves proposals from the Vice-Chancellor for the remuneration of senior management and professorial staff and reviews overall remuneration and remuneration policies;
- 3.11 To establish delegated procedures for the appointment of staff and the approval of contracts with staff and to appoint external members of Council to Appointment Committees dealing with senior appointments or appointments when the involvement of external members of Council would be appropriate;
- 3.12 To appoint Committees for hearing grievances and to consider redundancies and appeals in relation to employment matters and to receive reports from the Committees and, where relevant, approve the recommendations of the Committees;
- 3.13 To ensure that non-discriminatory systems are in place to provide Equality and Diversity of opportunity for staff and students and to monitor their effectiveness;
- 3.14 To have ultimate responsibility for the Health and Safety of employees, students and others affected by its operations. This responsibility includes ensuring that there is a written statement of policy, arrangements for the implementation of the policy and appropriate monitoring;
- 3.15 To be the University's legal authority, ensuring that processes are in place for managing legal obligations arising from contract and legal commitments and ensuring they are complied with;
- 3.16 To propose amendments to the Charter and to draft and enact Statutes, provided that Senate is given the opportunity to submit reports on any proposals for change to the Charter or Statutes, and to approve Ordinances and Regulations;
- 3.17 If necessary to appoint an Acting Vice-Chancellor;
- 3.18 To appoint a Chancellor;
- 3.19 To elect the President of Council to act as its chair and to elect Pro-Chancellors, the Treasurer and the Vice-President of Council;
- 3.20 To appoint external members of Council on the recommendation of the Nominations Committee. The Nominations Committee is responsible for the recruitment and assessment of possible candidates and for considering and making recommendations on the appropriate balance and diversity of skills, expertise, attributes and backgrounds within Council;
- 3.21 To establish appropriate procedures for rotation and induction of members;
- 3.22 To appoint annually the Chairs and the external members of Council Committees and to approve the terms of reference of Council Committees;
- 3.23 To delegate in accordance with Ordinances the appointment of Emeritus Professors and Honorary Professors, Readers, Lecturers or Fellows, to regulate the conferment of Honorary Degrees and to establish delegated procedures for appointing external examiners;
- 3.24 To approve the expulsion of students;
- 3.25 To establish processes to monitor and evaluate the effectiveness of Council; including a formal review to be conducted at least every four years;
- 3.26 To exercise all such powers as are or may be conferred on the Council by the Charter, Statutes, Ordinances and Regulations and to ensure compliance with the University's Charter, Statutes, Ordinances and Regulations;
- 3.27 To appoint a Secretary in accordance with Statutes and Ordinances and ensure that there is a direct and effective line of accountability to the President of Council in relation to Council business;
- 3.28 To oversee the Students' Union;
- 3.29 To select a Seal Arms and a Mace for the University and have the sole custody and use of the Seal.
- In 2010-11 the Council of the University comprised the Chancellor, Vice-Chancellor, up to 14 external, two student and nine academic persons appointed under the University's Statutes, the majority of whom are non-executive. The role of President of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specifically reserved to the Council for decision are set out in the University's Statutes. By custom and under the Higher Education Funding Council for England (HEFCE) Financial Memorandum, the Council is responsible for the University's ongoing strategic direction, approval of major developments and receiving regular reports from Executive Officers on the day to day operations of its business and its subsidiaries. The Council meets five times a year and has several Committees, all of which are formally constituted with terms of reference. The key Committees are noted below.

## Governance

The Finance Committee, which comprises 12 members of whom seven are external members and one the Students' Union President, *inter alia* recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Committee also reviews major investment decisions prior to final approval by Council.

The Strategy and Planning Committee, which comprises 16 members of whom nine are external members, advises the executive and Council on the University's overall objectives and priorities and the strategies and policies to achieve them.

The Council Nominations Committee considers nominations for vacancies in the Council membership under the relevant Statute. The Audit Committee comprises six external members and meets at least three times annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors, to consider internal audit reports and recommendations for the improvement of the University's systems of risk management, internal control and governance, together with management's response and implementation plans. It also receives and considers reports from the HEFCE as they affect the University's business. It considers the form of the annual report on Corporate Governance together with the accounting policies and reviews the implementation of risk management within the University. Whilst senior executives attend meetings of the Audit Committee as necessary, with the Vice-Chancellor attending at least once per annum, they are not members of the Committee, and the Committee meets with the External and Internal Auditors on their own for independent discussions.

The Remuneration Committee, which comprises five senior external members and the Vice-Chancellor, determines the salaries senior staff of the University. The salary of the Vice-Chancellor is determined by the external members of the Committee.

The Equality and Diversity Committee (which reports also to Senate) is responsible for defining the overall equality and diversity goals of the University, taking account of legal obligations and best practice. It comprises two external members, a Students' Union representative and five University members.

The Safety Committee comprises 15 representatives from academic schools and central support service departments and two members from the Students' Union. Its terms of reference are to formulate safety and environmental policies in order to ensure that the University meets all legislative requirements and best practice standards, and to promote and monitor effective implementation of those policies.

Day to day management of the University is via the Management Board, comprising the Vice-Chancellor, the six Pro-Vice-Chancellors, the Chief Financial Officer and the Registrar. Management Board acts as an executive committee

and normally meets weekly to consider the strategic and financial direction of the University. The Vice-Chancellor is the principal academic and administrative officer of the University. The Pro-Vice-Chancellors have specific responsibilities for major policy areas, whilst responsibility for administrative services is shared between the Registrar and the Chief Financial Officer. Council and the Strategy and Planning Committee are kept informed of the key decisions and discussions of Management Board including via the Vice-Chancellor's statement, which is also given to the University's Senate meetings.

Senate, which comprises senior academics across the University, meets three times a year. *Inter alia*, it has the power, subject to the Statutes and Ordinances, to direct and regulate the instruction and teaching within the University and the examinations held and to promote research within the University and to require reports from time to time of such research.

### Statement of internal control

Council as the governing body of the University of Nottingham has responsibility for ensuring that a sound system of internal control is maintained which supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the Council in the Charter and Statutes and the Financial Memorandum with HEFCE.

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically.

As noted above, the Council has responsibility for reviewing the effectiveness of the system of internal control and risk management and in undertaking that responsibility the following processes have been established:

- Regular meetings of Council consider the plans and strategic direction for the institution, advised by its key Committees, as noted above.
- The Audit Committee has been requested to provide oversight of risk management. This provides a formalised reporting and appraisal mechanism in addition to management reports noted above.
- The Audit Committee receives regular reports from the Head of Internal Audit, together with recommendations for improvement. This includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of

## Governance

the institution's systems of risk management, internal control and governance.

- An organisation-wide risk assessment framework is maintained and updates are considered by Management Board. Risk considerations form part of the annual budgeting and planning cycle and inform the work undertaken by Internal Audit.
- Key financial performance indicators and monthly management accounts are presented at each meeting of the Finance Committee.
- The annual budget, forward estimates and major investment proposals are approved by both Finance Committee and Council, following detailed review, challenge and assessment by the University's Management Board.

The review of the effectiveness of the system of internal control is informed by the Internal Audit Service, which operates to standards defined in the HEFCE Code of Practice and which was last reviewed for effectiveness by the HEFCE Assurance Service in October 2009.

The review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditor in their management letter and other reports.

### 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 University and to enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the HEFCE and the Council of the University, the Council, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the

University will continue in operation. The Council is satisfied that 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 the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets; regular reviews of performance and monthly reviews of financial results involving variance reporting and updates of forecast outturn;
- comprehensive Financial Regulations, approved by the Audit Committee, Finance Committee and Council;
- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments, supported by clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- a professional Internal Audit Service whose annual programme is approved by the Audit Committee;
- self assessment Controls Assurance certification completed by managers responsible for key systems of financial control; reviewed by the Internal Audit Service and the results reported to the Audit Committee.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

# Independent auditor's report to the Members of the Council of The University of Nottingham

We have audited the financial statements of The University of Nottingham for the year ended 31 July 2011 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the statement of consolidated total recognised gains and losses, the consolidated and University balance sheets, the consolidated cash flow statement, the reconciliation of net debt and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) and the Statement of Recommended Practice: Accounting for Further and Higher Education.

This report is made solely to the governing body in accordance with the financial memorandum effective August 2010. Our audit work has been undertaken so that we might state to the Members of Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council as a body, for our audit work, for this report, or for the opinions we have formed.

## Respective responsibilities of the University's board of governors and auditors

As explained more fully in the Council Responsibilities Statement, the Council is responsible for the preparation of the financial statements that give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the governing body; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and University's affairs as at 31 July 2011 and of the surplus for the year then ended; and
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education.

## Opinion on other matters prescribed by the Higher Education Funding Council for England Audit Code of Practice

In our opinion:

- in all material respects, income from the funding council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2011 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2011 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council.

## Matter on which we are required to report by exception

We have nothing to report in respect of the following matter where the Higher Education Funding Council for England Audit Code of Practice requires us to report to you if, in our opinion:

- the Statement of Internal Control is inconsistent with our knowledge of the University.

**Deloitte LLP**

Chartered Accountants and Statutory Auditor  
Nottingham, UK  
27 October 2011

# Statement of Principal Accounting Policies

## 1. Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments, and in accordance with both the Statement of Recommended Practice on Accounting for Further and Higher Education 2007 (SORP) and applicable Accounting Standards. They conform to the guidance published by the Higher Education Funding Council for England.

In accordance with FRS 18, Accounting Policies, these accounting policies have been reviewed by the Audit Committee and are considered appropriate to the University's activities.

Having made appropriate enquiries, Council considers that the group has adequate financial resources to continue in operational existence for the foreseeable future, being not less than twelve months from the date of signing the financial statements. Accordingly they continue to adopt the going concern basis in preparing the financial statements.

## 2. Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and its subsidiary undertakings for the financial year to 31 July.

The consolidated income and expenditure account includes the Group's share of the profits or losses and tax of associated undertakings and the consolidated balance sheet includes the investment in associated undertakings at the Group's share of their underlying net assets. Associated undertakings are those in which the Group has a significant, but not dominant, influence over their commercial and financial policy decisions.

The consolidated financial statements do not include those of the University of Nottingham Students' Union as it is a separate unincorporated body in which the University has no financial interest and no control or significant influence over policy decisions.

## 3. Recognition of Income

Funding Council block grants are accounted for in the period to which they relate. Fee income is stated gross and credited to income over the period in which students are studying. University funded Bursaries and scholarships are accounted for gross as both income and operating expenses.

Income from Research Grants and Contracts is included on an accruals basis to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs.

Donations with restrictions are recognised when the relevant conditions have been met.

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

All income from other sources is credited to the Income and Expenditure Account on a receivable basis.

## 4. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension. 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. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the Schemes.

A small number of staff remain in other pension schemes.

The USS scheme is a multi employer scheme and is accounted for on a defined contribution basis as it is not possible to identify the assets and liabilities of the scheme which are attributable to the group. CPAS is accounted for as a defined benefit scheme.

For the defined benefit scheme the amounts charged to Staff Costs are the current service costs and gains and losses on settlements and curtailments. The interest cost and the expected return on assets are shown within Interest and Other Finance Costs. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities. The resulting defined benefit asset or liability is presented separately after other net assets on the face of the balance sheet.

For defined contribution schemes the amount charged to Staff Costs is the contributions payable in the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

## Statement of Principal Accounting Policies

### 5. Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

### 6. Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations. Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

### 7. Goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the consideration over the fair value of the identifiable assets and liabilities acquired is capitalised and written off on a straight-line basis over its useful economic life. Useful economic life is assessed separately for each business acquired, depending on the nature of that business. Provision is made for any impairment.

### 8. Land and Buildings

Land and Buildings are stated at cost, other than those held as investments. Land, with the exception of the Arts Centre and DH Lawrence Pavilion land, which are held on a long lease, is held freehold and is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated over their expected useful lives generally between 50 and 100 years, with certain specific buildings depreciated over a longer period where appropriate. Major refurbishments are depreciated over their estimated life, normally 15 years. Leasehold land is depreciated over the life of the lease.

Where buildings 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 buildings.

Assets in the Course of Construction are not depreciated.

### 9. Equipment and Other Assets

Equipment, including computers and software, costing less than £30,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

- Telephone equipment - 7 years
- Motor vehicles and other general equipment - 3 – 10 years
- Equipment acquired for specific research projects - project life (generally 3 years)

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a grant received in advance and released to income over the expected useful life of the equipment (the period of the grant in respect of specific research projects).

Heritage Assets are recorded at cost and not depreciated.

### 10. Investment Properties

Investment properties are included in the Balance Sheet at their open market value at the balance sheet date on the basis of an annual professional valuation. Changes in the market value of investment properties are taken to the statement of total recognised gains and losses, being a movement on revaluation reserve.

### 11. Investments and endowments

Fixed asset investments are shown at historical cost less any provision for impairment in their value.

Endowment Asset Investments are included in the Balance Sheet at market value, with changes taken to the Statement of Total Recognised Gains and Losses. Current Asset Investments are included at the lower of cost and net realisable value.

Receipts classed as Restricted Expendable Endowments are credited to Endowment Reserves and transferred to Revenue Reserves as the related expenditure is incurred. Receipts where the capital amount cannot be spent are credited to Restricted Permanent Endowments and only accumulated income is available to be transferred to Revenue Reserves as the related expenditure is incurred.

### 12. Stocks

The stocks are stores, coal and oil held by the Estates Office, stores held centrally for some academic schools, stationery, and farm livestock, produce and consumables. They are valued at the lower of cost and net realisable value.

### 13. Short Term Investments

Short Term Investments comprise money on short-term deposit with a maturity date less than 90 days as at the balance sheet date.

### 14. Maintenance of Premises

The University has a five year rolling maintenance plan, which is reviewed on an annual basis. The costs of maintenance are charged to the income and expenditure account as incurred. Expenditure that extends the useful life of an asset or enhances an asset is capitalised.

### 15. Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

# Consolidated Income and Expenditure Account

For the Year Ended 31 July 2011

	Note	2011 £m	2010 £m
<b>INCOME</b>			
Funding Body Grants	1	145.1	144.4
Tuition Fees and Education Contracts	2	172.1	165.4
Research Grants and Contracts	3	100.3	104.1
Other Operating Income	4	92.0	95.7
Endowment and Investment Income	5	1.2	1.0
Total Income		510.7	510.6
<b>EXPENDITURE</b>			
Staff Costs	6	278.0	273.6
Other Operating Expenses	7	176.9	178.2
Depreciation	11	21.9	20.0
Interest and other Finance Costs	8	2.2	2.8
Total Expenditure	9	479.0	474.6
Surplus for the Year before Associates		31.7	36.0
Share of profits in Associated Companies	12	1.2	1.2
Surplus for the Year after Associates		32.9	37.2
Surplus for the year transferred from accumulated income in Endowment Funds	19	0.3	0.2
Net Surplus for Year retained within General Reserves	21	33.2	37.4

The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations. Acquisitions in the year contributed £0.8m to other income and £0.3m to surplus for the year.

# Statement of Consolidated Total Recognised Gains and Losses

For the Year Ended 31 July 2011

	Note	2011 £m	2010 £m
Surplus for the year after Associates		32.9	37.2
Appreciation of Endowment Asset Investments	19	2.3	2.9
New Endowments	19	1.1	0.2
Unrealised Surplus on revaluation of Investment Properties	20	0.1	0.2
Exchange movements on share of Associates	12	0.1	0.6
Actuarial loss on pension scheme	31	(3.7)	(2.0)
<b>TOTAL RECOGNISED GAINS RELATING TO THE YEAR</b>		<b>32.8</b>	<b>39.1</b>
<b>Reconciliation</b>			
Opening reserves and endowments		149.3	
Total recognised gains for the year		32.8	
<b>Closing reserves and endowments</b>		<b>182.1</b>	

# Balance Sheets

As at 31 July 2011

	Note	Consolidated		University	
		2011 £m	2010 £m	2011 £m	2010 £m
<b>FIXED ASSETS</b>					
Goodwill	10	1.3	0.0	0.0	0.0
Tangible Assets	11	442.2	401.8	440.1	401.0
Investments	12	19.4	18.1	9.1	9.0
		<u>462.9</u>	<u>419.9</u>	<u>449.2</u>	<u>410.0</u>
<b>INVESTMENT PROPERTIES</b>	13	3.1	3.0	3.1	3.0
<b>ENDOWMENT ASSETS</b>	14	<u>32.4</u>	<u>29.2</u>	<u>32.4</u>	<u>29.2</u>
<b>CURRENT ASSETS</b>					
Stocks		1.4	1.2	1.2	1.1
Debtors	15	55.4	68.4	57.7	69.3
Short Term Investments		7.2	5.4	6.9	2.0
		<u>64.0</u>	<u>75.0</u>	<u>65.8</u>	<u>72.4</u>
<b>CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>	16	(135.5)	(159.6)	(135.0)	(158.6)
<b>NET CURRENT LIABILITIES</b>		<u>(71.5)</u>	<u>(84.6)</u>	<u>(69.2)</u>	<u>(86.2)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		426.9	367.5	415.5	356.0
<b>CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR</b>	17	(10.9)	(5.8)	(10.9)	(6.0)
<b>NET ASSETS EXCLUDING PENSIONS LIABILITY</b>		416.0	361.7	404.6	350.0
<b>NET PENSIONS LIABILITY</b>	31	(53.1)	(51.6)	(53.1)	(51.6)
<b>TOTAL NET ASSETS INCLUDING PENSIONS LIABILITY</b>		<u>362.9</u>	<u>310.1</u>	<u>351.5</u>	<u>298.4</u>
<b>DEFERRED CAPITAL GRANTS</b>	18	180.8	160.8	180.4	160.2
<b>ENDOWMENTS</b>					
Expendable	19	1.2	1.7	1.2	1.7
Permanent	19	31.2	27.5	31.2	27.5
		<u>32.4</u>	<u>29.2</u>	<u>32.4</u>	<u>29.2</u>
<b>RESERVES</b>					
Income and Expenditure account excluding pension reserve	21	200.2	169.2	189.2	158.1
Pension Reserve	31	(53.1)	(51.6)	(53.1)	(51.6)
		<u>147.1</u>	<u>117.6</u>	<u>136.1</u>	<u>106.5</u>
Income and Expenditure account including pension reserve		147.1	117.6	136.1	106.5
Revaluation reserve	20	2.6	2.5	2.6	2.5
		<u>149.7</u>	<u>120.1</u>	<u>138.7</u>	<u>109.0</u>
<b>TOTAL FUNDS</b>		<u>362.9</u>	<u>310.1</u>	<u>351.5</u>	<u>298.4</u>

The financial statements on pages 13 to 37 were approved by Council on 25 October 2011 and signed on its behalf by:

PROFESSOR DAVID GREENAWAY  
Vice-Chancellor  
CHRIS THOMPSON  
Chief Financial Officer

JOHN MILLS  
Treasurer and Chairman of Finance Committee  
MARTIN WYNNE-JONES  
Director of Finance

# Consolidated Cash Flow Statement

For the Year Ended 31 July 2011

	Note	2011 £m	2010 £m
Net Cash Inflow from Operating Activities	25	44.4	46.2
Returns on Investments and Servicing of Finance	26	(1.0)	(1.6)
Capital Expenditure and Financial Investment	27	(44.0)	(8.4)
Cash (Outflow) / Inflow before Use of Liquid Resources and Short-term Investments		(0.6)	36.2
Acquisitions and Disposals	28	(2.2)	0.0
Management of Liquid Resources	30	(1.8)	(2.5)
Financing	29	4.7	(40.2)
<b>INCREASE / (DECREASE) IN CASH</b>	30	<b>0.1</b>	<b>(6.5)</b>

## Reconciliation of Net Cash Flow to Movement in Net Debt

		2011 £m	2010 £m
Increase / (Decrease) in Cash in the Year		0.1	(6.5)
Increase in Short Term Investments		1.8	2.5
Repayment of Debt	29	41.9	221.5
New Loans	29	(46.6)	(181.3)
Change in net debt resulting from cash flows		(2.8)	36.2
Acquisition of Harewood Leisure Limited		(0.4)	0.0
Effect of foreign exchange		(0.0)	(0.8)
<b>CHANGE IN NET DEBT</b>		<b>(3.2)</b>	<b>35.4</b>
NET DEBT AT 1 AUGUST		(0.3)	(35.7)
<b>NET DEBT AT 31 JULY</b>	30	<b>(3.5)</b>	<b>(0.3)</b>

# Notes to the Accounts

<b>1. Funding Body Grants</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Recurrent grants from HEFCE	127.2	127.3
Specific grants from HEFCE	5.6	6.4
Grants from TDA	2.8	2.7
Deferred Capital Grants Released in Year		
Buildings (Note 18)	3.3	2.4
Equipment (Note 18)	6.2	5.6
	<u>145.1</u>	<u>144.4</u>
<b>2. Tuition Fees and Education Contracts</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Full-time credit bearing courses - home fees	62.3	60.5
Full-time credit bearing courses - international fees	73.3	68.0
Part-time credit bearing courses	4.0	3.5
Other teaching contracts	25.2	25.1
Non credit bearing courses and other fees	7.3	8.3
	<u>172.1</u>	<u>165.4</u>
<b>3. Research Grants and Contracts</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Research Councils	45.8	49.0
UK Based Charities	12.2	13.0
UK Central/Local Government, Health and Health Authorities	15.7	17.1
UK Industry, Commerce and Public Corporations	9.6	8.2
EU Government and Other Sources	12.7	13.6
Other Grants and Contracts	4.3	3.2
	<u>100.3</u>	<u>104.1</u>
<b>4. Other Operating Income</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Residences, Catering and Conferences	30.1	30.2
Other Services Rendered	28.6	27.8
Health Authorities	10.8	10.9
Released from Deferred Capital Grants	0.5	0.5
Lease Premium	0.0	6.0
Other Income	22.0	20.3
	<u>92.0</u>	<u>95.7</u>
<p>In 2002/03 the University disposed of a property via a long lease. The lease was renegotiated and extended in the prior year to yield a £6m lease premium.</p>		
<b>5. Endowment and Investment Income</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Income from Permanent Endowments (Note 19)	0.9	0.9
Income from General Endowment Asset Investments	0.2	0.0
Other Interest Receivable	0.1	0.1
	<u>1.2</u>	<u>1.0</u>

Notes to the Accounts

<b>6. Staff</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Staff Costs:		
Gross Pay	230.8	228.2
Social Security Costs	18.3	17.6
Other Pension Costs (Note 31)	28.9	27.8
	<u>278.0</u>	<u>273.6</u>
	<b>2011</b>	<b>2010</b>
	<b>£000</b>	<b>£000</b>
Emoluments of the Vice Chancellor	<u>316.0</u>	<u>307.0</u>

The remuneration of the Vice Chancellor comprises annual remuneration of £316,057 (2010 £307,000). University pension contributions to USS are paid at the same rate as for other academic staff and amounted to £43,840 (2010 £41,517).

Compensation for loss of office paid to employees earning in excess of £100,000 per annum.

	0	0
	<u>0</u>	<u>0</u>
	<b>Number</b>	<b>Number</b>
Average Staff Numbers by Major Category:		
Teaching and Research	3,011	2,975
Technical	587	583
Administrative	1,831	1,808
Other, including Clerical and Manual	765	748
	<u>6,194</u>	<u>6,114</u>

Remuneration of other Higher Paid Staff, excluding employer's pension contributions but including payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded from the University's Income and Expenditure Account:

	<b>Number</b>	<b>Number</b>
£100,000 - £109,999	33	35
£110,000 - £119,999	18	13
£120,000 - £129,999	12	11
£130,000 - £139,999	12	10
£140,000 - £149,999	16	18
£150,000 - £159,999	12	7
£160,000 - £169,999	4	10
£170,000 - £179,999	9	8
£180,000 - £189,999	5	5
£190,000 - £199,999	0	3
£200,000 - £209,999	0	1

Expenses paid to Council members who are not staff or students (as listed within these financial statements) totalled £2,836 (2010 £4,293).

Notes to the Accounts

<b>7. Other Operating Expenses</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Amortisation (Note 10)	0.6	0.0
Purchase, Hire and Repair of Equipment	20.0	21.4
Consumables and Laboratory Expenditure	18.4	17.3
Published Materials	6.2	5.6
Travel and Subsistence	12.4	11.0
Professional and Other Fees	35.8	34.6
Fellowships, Scholarships and Prizes	32.2	33.3
Catering Supplies	5.3	5.2
Repairs and General Maintenance	13.1	13.6
Heat, Light, Water and Power	11.0	10.0
Rent, Rates and Insurance	3.8	4.2
Grants to University of Nottingham Students Union	1.8	1.7
Auditors' Remuneration	0.2	0.1
Training	1.7	1.6
Advertising	1.2	1.6
Impairment of Investments	0.8	1.1
Other Expenses	12.4	15.9
	<u>176.9</u>	<u>178.2</u>

Auditors' Remuneration includes £91,335 in respect of audit services for the group, of which £72,400 relates to the University, and £78,565 in respect of non audit services comprising predominantly of seconded staff. The 2010 expenditure was £85,000, £57,000 and £61,500 respectively.

<b>8. Interest and other Finance Costs</b>	<b>2011</b>	<b>2010</b>
	<b>£m</b>	<b>£m</b>
Loans not wholly repayable within five years	0.1	0.5
Finance costs for pension scheme (Note 31)	2.1	2.3
	<u>2.2</u>	<u>2.8</u>

Notes to the Accounts

9. Analysis of Expenditure By Activity

	Staff Costs £m	Dep'n £m	Other Operating Expenses £m	Interest Payable £m	2011 Total £m	2010 Total £m
Academic Departments	170.7	5.1	46.2	0.0	222.0	217.0
Research Grants and Contracts	41.5	2.4	30.7	0.0	74.6	78.5
Total Teaching and Research	212.2	7.5	76.9	0.0	296.6	295.5
Academic Services	17.9	3.8	16.4	0.0	38.1	32.0
Administration	24.7	0.1	27.9	0.0	52.7	58.1
Premises	8.9	8.1	24.6	0.0	41.6	40.7
Residences, Catering and Conferences	7.8	1.3	14.4	0.0	23.5	21.2
Other Expenses	6.5	1.1	16.7	2.2	26.5	27.1
Total per Income and Expenditure Account	278.0	21.9	176.9	2.2	479.0	474.6

10. Goodwill Acquired in the Year

	Consolidated £m
<b>Cost</b>	
Additions (Note 28)	1.9
At 31 July 2011	1.9
<b>Amortisation</b>	
Charge for the year	0.6
At 31 July 2011	0.6
<b>Net book value</b>	
At 31 July 2011	1.3



## Notes to the Accounts

### 12. Investments

	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Subsidiary Company	0.0	0.0	0.4	0.4
Associated Companies	18.8	17.5	8.1	8.0
Investments	0.6	0.6	0.6	0.6
	<u>19.4</u>	<u>18.1</u>	<u>9.1</u>	<u>9.0</u>

Included within investments are amounts invested in University collaborations and spin out companies. The majority of the investments have been written down to nil. The total cost of such investments was £6.2m (2010 £5.4m) with an impairment provision of £5.6m (2010 £4.8m). The total amount invested in the year was £0.8m (2010 £1.1m) and the impairment charge in the year was £0.8m (2010 £1.1m). The University is also a member of EMMAN Limited and The Manufacturing Technology Centre Limited, both of which are companies limited by guarantee for which the University's potential liability is limited to £1 each.

The investments, which have not been consolidated or equity accounted for on the grounds of materiality, are as follows:

Investment	Type of business	% Holding
AIMS Solutions Limited	Other software consultancy and supply	24.0%
Aptia Solutions Limited	Software publishing	24.9%
BioCity Limited	Accommodation (biotechnology and health companies)	33.3%
Cellaura Technologies Limited	Research and development	21.0%
Critical Pharmaceuticals Limited	Novel drug delivery devices	14.5%
Encos Limited	Research and development	7.2%
EventMAP	Software development and application	7.5%
Evocell Limited	Research and development	11.7%
FAHRAS Limited	Health related software	18.9%
Flavometrix Limited	Research and development	20.0%
Gamma Technologies Limited	Development and licensing of computer aided engineering	5.0%
Lachesis Fund	Seed fund investment	19.9%
M4 Technologies Limited	Research and development	24.0%
Molecular Profiles Limited	Research and development	12.5%
Monica Healthcare Limited	Research and development	12.9%
Nottingham Gynaecological Devices Limited	Research and development	22.0%
OncImmune Limited	Research and development	16.0%
Pharminox Limited	Human health activities	1.4%
Pre Clinical Oncology Services Limited	Human health activities	44.0%
Promethean Particles Limited	Inorganic nanoparticle dispersion manufacture	50.0%
Regentec Limited	Research and development	24.0%
Scancell Holdings plc	Research and development	1.4%
Spirogen Limited	Human health activities	3.0%
Ticketing Network East Midlands	Ticket services	25.0%
U21 Equity Limited	University networking organisation	12.0%

The University Group owns 100% of the issued share capital of the following companies which are registered in England and operating in the UK:

Company Name	No of £1 Ordinary Shares
Nottingham University Industrial and Commercial Enterprise Limited (NOTICE)	100,000
UNIP Management Limited	2
Eminate Limited	2
Harewood Leisure Limited	1,000

NOTICE is a provider of services, such as conference facilities, consultancy, publishing and power supplies. UNIP Management provides rental and property services. Eminate develops and manufactures products for the food and pharmaceutical sectors. Harewood Leisure is a provider of fitness facilities.

The consolidated results of the group incorporate the above 100% owned companies and those of Nottingham University Foundation Limited, a company granted charitable status in April 2003, and Nottingham Technologies Asia Limited (both registered and operating in Hong Kong).

## Notes to the Accounts

### 12. Investments continued

Investment in Associated companies	Consolidated £m	University £m
As at 1 August 2010	17.5	8.0
Share of retained profits	1.2	0.0
Exchange movements	0.1	0.1
As at 31 July 2011	18.8	8.1

The University owns 37.5% of the University of Nottingham Ningbo, China, a co-operative joint venture established in China. It has a financial year end of 31 December in accordance with Chinese regulations. The consolidated accounts of the University reflects a carrying value of £14.1m (2010 £12.9m) equal to 37.5% of the net assets, excluding intellectual property, as at 31 July.

The University owns 29.1% of the ordinary share capital of the University of Nottingham, Malaysia, a company incorporated in Malaysia. It has a financial year end of 31 December in common with its majority shareholder. The consolidated accounts of the University reflects a carrying value of £4.7 million (2010 £4.6 million) equal to 29.1% of the net assets, excluding intellectual property, as at 31 July.

Academic quality in both China and Malaysia is controlled by The University of Nottingham.

The University has purchased 49% of the ordinary share capital of Nottingham MyRIAD Solutions, a company incorporated in Malaysia. It has a financial year end of 31 December in common with its majority shareholder. The consolidated accounts of the University reflects a carrying value of £10,105 (2010 £nil) equal to 49% of the net assets, as at 31 July.

### 13. Investment Properties

	Consolidated and University	
	2011 £m	2010 £m
Balance at 1 August	3.0	2.8
Appreciation on Revaluation	0.1	0.2
Balance at 31 July	3.1	3.0

Land and property valuations as at 31 July 2010 have been made by senior management on the advice of Savills (L&P) Ltd and Shouler and Son, firms of Chartered Surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

### 14. Endowment Assets

	Consolidated and University	
	2011 £m	2010 £m
Balance at 1 August	29.2	26.4
Additions	7.8	3.9
Disposals	(7.4)	(3.7)
Appreciation on Revaluation	2.4	2.9
Increase/(Decrease) in Cash Balances	0.4	(0.3)
Balance at 31 July	32.4	29.2
Represented by:		
Fixed Interest Stocks	3.7	4.9
Equities	20.0	18.5
Multi Asset Funds	2.5	0.0
Land and Property	0.3	0.3
Cash Balances (Note 30)	5.9	5.5
	32.4	29.2

Included within the above balances is accumulated income yet to be applied of £3.3m (2010: £3.2m).

Notes to the Accounts

15. Debtors

	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Amounts falling due within one year:				
Debtors	23.7	22.4	23.1	21.5
Amounts due from Subsidiaries	0.0	0.0	3.1	2.2
Amounts due from Associates (Note 24)	5.0	3.1	5.0	3.1
Prepayments and accrued income	26.7	42.4	26.5	42.0
	55.4	67.9	57.7	68.8
Amounts falling due after more than one year:				
Prepayments and accrued income	0.0	0.5	0.0	0.5
	0.0	0.5	0.0	0.5
Total Debtors	55.4	68.4	57.7	69.3

Amounts due from Associates have been separately identified above, previously disclosed within 'Prepayments and accrued income' and separately disclosed in note 24 (Related party transactions).

16. Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Bank Overdraft	2.5	2.2	3.4	2.9
Bank Loans	3.2	3.2	3.2	3.2
Payments Received in Advance	1.7	2.5	1.3	2.0
Trade Creditors	22.5	17.9	21.7	16.7
Social Security and Other Taxation Payable	11.0	10.4	11.1	10.4
Amounts due to Subsidiaries	0.0	0.0	1.2	1.6
Accruals and Deferred Income	94.6	123.4	93.1	121.8
	135.5	159.6	135.0	158.6

17. Creditors: Amounts Falling Due After More Than One Year

	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Loans from subsidiary companies	0.0	0.0	0.0	0.2
Bank Loans	10.6	5.6	10.6	5.6
Hefce loans	0.3	0.2	0.3	0.2
	10.9	5.8	10.9	6.0

The bank loans are with the Royal Bank of Scotland at a rate which is 0.20% above LIBOR. The total facility is for £106.8 million and is a 24 year revolving credit facility with straight line amortisation of £0.8m per quarter over 25 years which commenced October 2010 with a £30 million bullet repayment at the end. The University has the ability to repay and redraw against the facility over the period of the loans and utilises this facility to manage its cash requirements. In addition the University has a multi-option facility for £15 million.

Notes to the Accounts

18. Deferred Capital Grants

	Funding Council £m	Consolidated Other Grants £m	Total £m
At 1 August 2010			
Buildings	93.1	33.4	126.5
Equipment	25.5	8.8	34.3
Total	118.6	42.2	160.8
Grants Received			
Buildings	15.5	1.5	17.0
Equipment	14.0	2.2	16.2
Total	29.5	3.7	33.2
Released to Income and Expenditure			
Buildings (Notes 1 and 4)	(3.3)	(0.5)	(3.8)
Equipment (Notes 1)	(6.2)	(3.2)	(9.4)
Total	(9.5)	(3.7)	(13.2)
At 31 July 2011			
Buildings	105.3	34.4	139.7
Equipment	33.3	7.8	41.1
Total	138.6	42.2	180.8
		University	
	Funding Council	Other Grants	Total
	£m	£m	£m
At 1 August 2010			
Buildings	93.1	33.4	126.5
Equipment	25.5	8.2	33.7
Total	118.6	41.6	160.2
Grants Received			
Buildings	15.5	1.5	17.0
Equipment	14.0	2.2	16.2
Total	29.5	3.7	33.2
Released to Income and Expenditure			
Buildings	(3.3)	(0.5)	(3.8)
Equipment	(6.2)	(3.0)	(9.2)
Total	(9.5)	(3.5)	(13.0)
At 31 July 2011			
Buildings	105.3	34.4	139.7
Equipment	33.3	7.4	40.7
Total	138.6	41.8	180.4

Notes to the Accounts

19. Endowments

	Consolidated and University		
	Restricted Expendable £m	Restricted Permanent £m	Restricted Total £m
Balance at 1 August 2010	1.7	27.5	29.2
Additions	0.0	1.1	1.1
Transfers	(0.1)	0.1	0.0
Appreciation of Endowment Asset Investments	0.0	2.3	2.3
Income for the Year	0.0	0.9	0.9
Expenditure for the Year	(0.4)	(0.7)	(1.1)
Balance at 31 July 2011	1.2	31.2	32.4
Represented by:			
Capital value	1.2	27.8	29.0
Accumulated income	0.0	3.4	3.4
	1.2	31.2	32.4

The University has no unrestricted permanent endowments.

20. Revaluation Reserve

	Consolidated and University £m
Balance at 1 August 2010	2.5
Unrealised surplus on revaluation of investment properties	0.1
Balance at 31 July 2011	2.6

21. General Reserve

	Consolidated £m	University £m
Balance at 1 August 2010	169.2	158.1
Transfer from Surplus for the Year	33.2	33.3
Transfer to Pension Reserve	(2.3)	(2.3)
Exchange movements	0.1	0.1
Balance at 31 July 2011	200.2	189.2

The University's individual Income and Expenditure Account and related notes have been excluded from these financial statements because the results are included in the Consolidated Income and Expenditure Account. The surplus for the year before share of associate's profits and exceptional items was £33.1m (2010 - £32.4m).

## Notes to the Accounts

22. Operating lease commitments	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Operating lease commitments in respect of equipment for the forthcoming financial year, on leases expiring:				
Within one year	0.1	0.2	0.1	0.2
Between two and five years	0.2	0.1	0.2	0.1
Over five years	0.0	0.0	0.0	0.0
	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>	<u>0.3</u>

There are no operating lease commitments in respect of land and buildings.

23. Capital Commitments	Consolidated		University	
	2011 £m	2010 £m	2011 £m	2010 £m
Commitments contracted at 31 July	<u>48.3</u>	<u>37.8</u>	<u>45.1</u>	<u>37.8</u>

The University commenced construction of two new teaching buildings and four new research buildings along with one building to enhance commercial revenue generation. In 2010/11 the University completed the construction of five new teaching and research buildings (long term projects which commenced in 2009/10) and purchased the land which was committed to in the prior year.

## 24. Related party transactions

The University of Nottingham owns a 29.1% stake in the University of Nottingham, Malaysia, a 37.5% stake in the University of Nottingham, Ningbo China and a 49% stake in MyRIAD, Malaysia all of which are accounted for as associated entities (see note 12).

Academic quality in both China and Malaysia is controlled by The University of Nottingham, for which it receives management fees and certain members of staff are seconded to both overseas campuses for periods of up to 3 years. In addition certain costs incurred by the University are rechargeable between each associate and the University in accordance with signed agreements.

In the year the University extended a loan of £1.6m to the University of Nottingham, Malaysia at an interest rate of cost of funds to the University of Nottingham plus 1% to support effective working capital management. There was no loan at the prior year end.

The only transaction with MyRIAD was an investment of £10,000 in the year to acquire share capital.

	2011 Malaysia £000	2011 China £000	2010 Malaysia £000	2010 China £000
Net charges by the University:				
Costs	858	158	(24)	347
Management fee	1,427	2,308	1,205	2,111
Owed to the University at 31 July	<u>2,413</u>	<u>2,602</u>	<u>588</u>	<u>2,473</u>

All transactions with spin out companies are undertaken on a commercial, arms length basis and are not material to the Group.

Notes to the Accounts

**25. Reconciliation of Consolidated Operating  
Surplus To Net Cash Inflow From Operating Activities**

	2011 £m	2010 £m
Surplus for the Year	32.9	37.2
Depreciation (Note 11)	21.9	20.0
Amortisation (Note 10)	0.6	0.0
Impairment of investments	0.8	1.1
Lease Premium	0.0	(6.0)
Share of profits in associated companies	(1.2)	(1.2)
Deferred Capital Grants Released to Income (Note 18)	(13.2)	(11.3)
Investment Income (Note 5)	(1.2)	(1.0)
Interest Payable (Note 8)	2.2	2.8
Net Income Retained from Specific Endowments	0.3	0.2
Increase in Stocks	(0.2)	(0.1)
Decrease / (Increase) in Debtors	13.0	(8.4)
(Decrease) / Increase in Creditors	(11.5)	13.0
Foreign exchange movements	0.0	(0.1)
Net Cash Inflow from Operating Activities	44.4	46.2

**26. Returns On Investments And Servicing Of Finance**

	2011 £m	2010 £m
Income from Endowments	1.0	0.9
Other Interest Received	0.1	0.2
Interest Paid	(2.1)	(2.7)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(1.0)	(1.6)

**27. Capital Expenditure And Financial Investment**

	2011 £m	2010 £m
Payments to Acquire Tangible Assets	(59.8)	(37.3)
Payments to Acquire Endowment Asset Investments (Note 14)	(7.8)	(3.9)
Total Payments to Acquire Fixed and Endowment Asset Investments	(67.6)	(41.2)
Receipts from Sales of Endowment Assets (Note 14)	7.4	3.7
Receipts from Sales of Fixed Assets	0.1	0.0
Receipts from Lease Premium	0.0	6.0
Deferred Capital Grants Received	15.3	22.9
Endowments Received	0.8	0.2
Net Cash Outflow from Capital Expenditure and Financial Investment	(44.0)	(8.4)

## Notes to the Accounts

### 28. Acquisitions and Disposals

On 9 September 2010 the Group acquired 100% of the issued share capital of Harewood Leisure Limited. The fair value of the consideration was £2.3m.

	2011 £m
Tangible Fixed Assets	0.8
Cash	0.1
Creditors: Amounts Falling Due Within One Year	(0.1)
Loan: Amounts Falling Due Within One Year	(0.1)
Loan: Amounts Falling Due After One Year	(0.3)
Net Assets at Fair Value	<u>0.4</u>
Goodwill (Note 10)	1.9
Cash Consideration	<u>2.3</u>
Payments to Acquire Harewood Leisure Limited	2.3
Cash Acquired with Harewood Leisure Limited	(0.1)
Net Cash Outflow	<u>2.2</u>

Harewood Leisure Limited acquired in the year contributed £0.3m to the Group's net operating cash flows and paid £0.4m to repay net debt.

### 29. Analysis Of Changes In Consolidated Financing During The Year

	Mortgages and Loans £m
<b>Balances at 1 August 2010</b>	<u>9.0</u>
New Loans	46.6
Capital Repayments	(41.9)
Acquisition of Harewood Leisure Limited	0.4
Net Amount Repaid in Year	<u>5.1</u>
<b>Balances at 31 July 2011</b>	<u>14.1</u>

## Notes to the Accounts

### 30. Analysis Of Changes In Net Debt

	At August 2010 £m	Cash Flows £m	Acquisition* £m	Other Changes £m	At 31 July 2011 £m
Cash					
Endowment Asset Investments (Note 13)	5.5	0.4	0.0	0.0	5.9
Cash at Bank and in hand/(Bank overdraft)	(2.2)	(0.3)	0.0	0.0	(2.5)
	3.3	0.1	0.0	0.0	3.4
Short Term Investments	5.4	1.8	0.0	0.0	7.2
Debt due within one year	(3.2)	0.1	(0.1)	0.0	(3.2)
Debt due after one year	(5.8)	(4.8)	(0.3)	(0.0)	(10.9)
	(0.3)	(2.8)	(0.4)	(0.0)	(3.5)

\* Excluding cash (Note 28)

### 31. Pension Schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). USS provides benefits based on final pensionable salary for academic and related employees of some UK universities and some other employers. CPAS provides similar benefits for other staff of the University. The University also operates a defined contribution scheme, The University of Nottingham Contributory Retirement Savings Plan (CRSP).

#### USS

The institution 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 institution 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 FRS17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest 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 their estimate of the funding level at 31 March 2011 are also included in this note.

## Notes to the Accounts

### 31. Pension Schemes continued

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 (i.e. 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 further cautionary reserve on top for past service liabilities) and pensions would increase by 3.3% per annum.

Standard mortality tables were used 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 age 65 are:

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

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were 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 (i.e. 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 FRS17 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 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 surrounding pay growth. Analysis has shown very variable levels over and above general pay rises in recent years, and the salary growth assumption built into the cost of the 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 noted above.

The institution 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, agreed the institution contribution rate of 16% of pensionable salaries from 1 October 2009.

Notes to the Accounts

31. Pension Schemes continued

Since 31 March 2008 global investment markets have continued to fluctuate and at 31 March 2011 the market's assessment of inflation has increased slightly. The UK government has also announced a change to the inflation measure used in determining the 'Official Pensions Index' from the Retail Prices Index to the Consumer Prices Index. The actuary has taken this into account in his funding level estimates at 31 March 2011 by reducing the assumption for pension increases from 3.35 per annum to 2.9% per annum. The actuary has estimated that the funding level as at 31 March 2011 under the scheme specific funding regime has fallen from 103% to 98% (a deficit of circ £700 million). Over the past twelve months, the funding level has improved from 91%, as at 31 March 2010 to 98%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the three 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). The next formal valuation is as at 31 March 2011 and this will incorporate updated assumptions agreed by the trustee company.

With effect from 1 October 2011, new joiners to the scheme will join the new revalued benefits section rather than the existing final salary section. This change will have an impact, expected to be positive, on the future funding levels.

On the FRS17 basis, using an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 86%. An estimate of the funding level measured on a buy-out basis at that date was approximately 54%.

Surpluses or deficits which arise at future valuations may impact on the institution'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 principle assumptions used to measure the scheme liabilities on a technical provisions basis as 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 £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a 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 has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flows 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 minimizing 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.

## Notes to the Accounts

### 31. Pension Schemes continued

The next formal triennial actuarial valuation is due as at 31 March 2011 and will incorporate allowance for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

#### CPAS

The University operates a defined benefit scheme in the UK, which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. A full actuarial valuation was carried out at 31 July 2008. The results of that valuation have been projected to 31 July 2011 by a qualified independent actuary. For 2011 employer contributions were 18.7% of pensionable pay and active members paid in at the rate of 6.0% of pensionable pay. Following the 31 July 2008 valuation employer contributions have been agreed at the rate of 12.6% of pensionable pay plus £360,100 per month from 1 August 2009. The monthly lump sum payment is to pay for the past-service shortfall over a 12 year period and will increase by 4.8% each August. Active members' contributions remain at the rate of 6.0% of pensionable pay.

The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities, the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 6.8% per annum, salary increases would be 4.8% per annum and pensions would increase between 3.0% and 3.6% per annum. The market value of the assets of the scheme was £90.1 million with past service liabilities of £140.6 million. The valuation was carried out using the projected unit method.

CPAS was closed to new entrants from 1 September 2006. There are no changes at all to benefits earned up to that date, and the defined benefit scheme, with the University guaranteeing benefits in retirement, will continue for all current members. From 1 September 2006, future pensions accruing will be calculated on the basis of what is earned each year, inflation proofed up to a maximum of 5% per annum. This will be added to the pension earned in respect of service up to 31 August 2006, which will continue to be calculated by reference to final salary at retirement or earlier date of leaving.

The total pension charge to the Income and Expenditure account for the University and its subsidiaries was:

	2011 £m	2010 £m
Contributions to USS	24.5	23.5
Charge to Income & Expenditure account re CPAS	2.4	2.5
Contributions to Other Pension Schemes (including CRSP)	2.0	1.8
Total Pensions Cost (Note 6)	<u>28.9</u>	<u>27.8</u>

Notes to the Accounts

31. Pension Schemes continued

CPAS - FRS17 Disclosure

The amounts recognised in the balance sheet are as follows:

	2011 £m	2010 £m
Present value of funded obligations	(165.8)	(152.2)
Fair value of Plan assets	112.7	100.6
Deficit	<u>(53.1)</u>	<u>(51.6)</u>

The amounts recognised in staff costs within the operating surplus are as follows:

	2011 £m	2010 £m
Current service cost	3.0	2.9
Gains on curtailments, settlements and business combinations	0.0	0.0
Total operating charge	<u>3.0</u>	<u>2.9</u>

The amount charged to interest was as follows:

	2011 £m	2010 £m
Interest on obligation	8.2	8.0
Expected return on plan assets	(6.1)	(5.7)
Net return (note 8)	<u>2.1</u>	<u>2.3</u>

The amount recognised in the statement of total recognised gains and losses (STRGL) was as follows:

	2011 £m	2010 £m
Actual return less expected return on pension scheme assets	3.1	9.0
Experience gains and losses	(6.8)	(11.0)
Actuarial loss recognised in STRGL	<u>(3.7)</u>	<u>(2.0)</u>
Actual return on plan assets	<u>9.1</u>	<u>14.7</u>

Notes to the Accounts

31. Pension Schemes continued

Changes in the present value of the defined benefit obligation are as follows:	2011 £m	2010 £m
Opening defined benefit obligation	152.2	134.5
Service cost	3.0	2.9
Interest cost	8.2	8.0
Plan participants' contributions	0.7	0.7
Actuarial losses	9.6	11.0
Gains on change to CPI from RPI	(2.8)	0.0
Benefits paid	(5.1)	(4.9)
Closing defined benefit obligation	165.8	152.2

Changes in the fair value of plan assets are as follows:	2011 £m	2010 £m
Opening fair value of plan assets	100.6	82.4
Expected return on plan assets	6.1	5.9
Actuarial gains	3.1	9.0
Employer contribution	7.4	7.5
Plan participants' contributions	0.7	0.7
Benefits paid	(5.2)	(4.9)
Fair value of plan assets at end of period	112.7	100.6

The major categories of plan assets as a percentage of total plan assets are as follows:	2011	2010
Equities	68%	55%
Bonds	25%	34%
Property	5%	6%
Cash	2%	5%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):	2011	2010
Discount rate at end of year	5.30%	5.40%
Expected return on plan assets at end of year	6.07%	5.95%
Future salary increases	3.80%	3.90%
Future pension increases	3.00%	3.10%
Proportion of employees opting for early retirement	50.00%	50.00%
Proportion of employees commuting pension for cash	100.00%	100.00%
Future expected lifetime of pensioner at age 65:		
Male:	21.2	21.1
Female:	23.4	23.4

### 31. Pension Schemes continued

Amounts for the current and previous four periods are as follows:	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Defined benefit obligation	(165.8)	(152.2)	(134.4)	(121.0)	(122.4)
Plan assets	112.7	100.6	82.4	90.7	95.9
Deficit	(53.1)	(51.6)	(52.0)	(30.3)	(26.5)
Experience adjustments on plan liabilities	(6.8)	(11.0)	(8.5)	8.3	1.8
Experience adjustments on plan assets	3.1	9.0	(14.7)	(14.1)	3.5

#### CRSP

Following the closure of CPAS to new entrants on 1 September 2006, the University engaged Legal & General to operate a defined contribution pension scheme for the benefit of members. The Contributory Retirement Savings Plan (CRSP) is designed as the primary pension plan for members of staff who are not already in another pension scheme, but all members of staff can join CRSP. The University makes contributions equivalent to twice the employee's contribution, up to a maximum of 10%. As at 31 July 2011 the University owed £99,000 in respect of contributions to the scheme (2010: £85,000).

### 32. Access Funds

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

	2011 £m	2010 £m
Balance at 1 August	0.0	0.0
Funding Council Grants	0.4	0.5
	0.4	0.5
Disbursed to Students	(0.4)	(0.5)
Balance Unspent at 31 July	(0.0)	0.0

### 33. Linked Charities

The following charities are linked to the University and fall within paragraph (w) of Schedule 2 of the Charities Act 1993, and are consolidated within the Group.

<b>Children's Play Activities Trust Fund</b>	<b>2011 £000</b>	<b>2010 £000</b>
<b>Reserves</b>		
Balance at 1 August	228	201
Income in the Year	8	8
Capital Appreciation	14	19
Balance at 31 July	<u>250</u>	<u>228</u>
<b>Non-Operating Charities</b>		
JH Tomlin Scholarship Fund		
The Dean Moore Scholarship Fund		
The AF Bird Memorial Award		

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The University of  
**Nottingham**

UNITED KINGDOM • CHINA • MALAYSIA

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**The University of Nottingham**

University Park  
Nottingham  
NG7 2RD  
UK  
t: +44 (0)115 951 5151  
f: +44 (0)115 951 3666

**The University of Nottingham**

Malaysia Campus  
Jalan Broga  
43500 Semenyih  
Selangor Darul Ehsan  
Malaysia  
t: +60 (0)3 8924 8000  
f: +60 (0)3 8924 8001

**The University of Nottingham**

Ningbo, China Campus  
199 Taikang East Road  
Ningbo, 315100  
China  
t: +86 (0) 574 8818 0000  
f: +86 (0) 574 8818 0188

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