

Financial statements

The University of Nottingham
For the year ended 31 July 2003



Financial Statements for the year to 31 July 2003

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The Council

As at 31 July 2003

President: J R Haylock, BSc, FRSA ^{2,3}

Vice-President: Mrs J Forman Hardy, LLB ^{2,3}

Members ex-Officio

The Chancellor:	Professor Fujia Yang, BSc, DSc, Dhumanities and Letters
The Pro-Chancellor:	A H Hawksworth, TD, DL, MA, FCIPD ^{2,3}
The Vice-Chancellor:	Professor Sir Colin Campbell, DL, LLB, FRSA, CIM, LLD ^{2,3,4}
The Treasurer:	K Hamill, BA, FCA ^{2,3}
The Pro-Vice-Chancellors:	Professor S H Bailey, MA, LLB ^{2,4}
	Professor B R Clayton, BSc, PhD, DSc, CEng, FIMechE, FRINA ^{2,4}
	Professor D Grierson, OBE, BSc, PhD, DSC, DSc Honoris Causa, Cbiol, FIBoil, FRS (From 1 January 2003) ^{2,4}
	Professor P Ford, MA, CEng, FBCS (Until 31 December 2002) ^{2,4}
	Professor P A Gillies, BSc, PGCE, MEd, MMedSci, PhD, Hon MFPHM, FRSA ^{2,4}
	Professor G Pattenden, PhD, DSc, CChem, FRSC, FRS (Until 31 December 2002) ^{2,4}
	Professor D G Tallack, MA, DPhil ^{2,4}
	Professor H F Sewell, MCBChB, BDS, MSc, PhD, FRCP, FRCPath, FMedSci (From 1 January 2003) ^{2,4}

Lay Members Appointed by the Council

T R Angear, BA, MBA
Lady Buchanan, DL
A Colquhoun, BSc, MBA, PhD ²
J Forman Hardy, LLB ^{2,3}
A Greenwood, BSc, ACA, ATII ²
N A Karimjee, BA, FCA ²
S M Lyons, BSc, FEng ²
M McNamara, BA, MA¹
M L Rossi, MA, MEx, MIRM, FRSA²
M Suthers, OBE, MA, DL ¹
K R Whitesides, MBE, LLB, MPhil ¹
A Wilkinson, FRSA

Academic Members Appointed by the Senate

Dr B P Atkin, BSc, PhD, CEng, FIMM, FGS ⁴
Professor D J Birch, LLB ⁴
Dr C Hall, BA, PhD ⁴
Dr J C Murray, BSc, PhD ⁴
Professor D S Riley, BSc, PhD ⁴
Professor J Still, BA, MSc, PhD ⁴
Dr P A Wright, BA, BMUS, MA, PhD ⁴
Dr C M Wykes, BSc, PhD, MInstP, CPhys ⁴

Lay Members Appointed by The University Association

D R McAra, BA, ACA ¹
M S Curry, BSc ²

Appointed by the Union of Students

N Paul-Birabi
B O'Connell

Secretary

The Registrar: K H Jones, MA ⁴

Chief Financial Officer: D A Beeby, BSc, FCA ⁴

Director of Finance: M Wynne-Jones, BSc, ACA ⁴

¹ Member of Audit Committee

² Member of Finance & General Purposes Committee

³ Member of Remuneration Committee

⁴ University Employee

Financial Highlights

Consolidated Income and Expenditure Account

	2003 £ million	2002 £ million	Change %
Funding Council Grants	83.9	77.0	9.0
Academic Fees and Support Grants	75.1	66.2	13.4
Research Grants and Contracts	65.2	65.1	0.2
Other Operating Income	60.8	56.2	8.2
Endowment Income and Interest Receivable	<u>1.3</u>	<u>0.8</u>	
TOTAL INCOME	<u>286.3</u>	<u>265.3</u>	7.9
SURPLUS FOR THE YEAR	2.4	2.0	
Share of losses in associated company	(0.3)	(0.4)	
Surpluses on disposal of property	<u>25.4</u>	<u>0.9</u>	
NET SURPLUS FOR THE YEAR	<u>27.5</u>	<u>3.0</u>	
Net Cash Flow from Operating Activities	27.9	4.8	
Net Returns on Investments and Servicing of Finance	<u>(1.1)</u>	<u>(1.8)</u>	
NET CASH FLOW BEFORE INVESTING ACTIVITIES	<u>26.8</u>	<u>3.0</u>	
Investing activities include investments in new and refurbished academic and residential buildings.			
Fixed Assets	218.0	197.4	
Endowment Asset Investments	35.4	34.2	
Net Current Liabilities	(15.2)	(14.4)	
Long Term Creditors and Provisions	<u>(28.0)</u>	<u>(51.1)</u>	
Total Assets Less Liabilities	<u>210.2</u>	<u>166.1</u>	

Other Key Statistics

	Number	Number
Number of full-time Students	21,244	19,130
Total number of students	27,887	25,862
Number of Subject Areas Rated as Excellent for Teaching	27	27
Number of Grade 5 and 5* Research Departments	26	26

Treasurer's Report

Scope of the Financial Statements

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

Results for the Year

The University's Consolidated Income, Expenditure and Results for the year to 31 July 2003 are summarised in the Financial Highlights shown on page 3 of the Financial Statements. The University's total income increased by nearly 8% to £286.3 million. Total expenditure increased by £20.6 million (7.8%), with staff costs increasing by £12.8 million (8.7%) to £159.8 million.

The overall result, before exceptional items was a modest surplus of £2.1 million, compared to £1.6m last year. After the one off sale of property the net surplus was £27.5 million.

The exceptional item of £25.4 million resulted from the disposal of the University's off-campus student accommodation for nearly £37 million. The transaction involved the University granting a 35-year lease to operate the Broadgate Estate, which comprises 1,386 rooms of self catered accommodation. Of the total consideration, £26.4 million was received in July and the balance was dependent on certain planning consents, which have now been received. Accordingly the entire transaction has been included in these accounts. This transaction has enabled the University to realise significant value and strengthen its financial flexibility, enabling it to continue to invest in its development.

Investment Performance

The value of the University's total long-term endowment asset investments has increased by £1.2 million (3.5%) during the year, reflecting a small recovery in the worldwide markets, particularly in the last quarter. A full breakdown of the changes is given in Note 12 of the Financial Statements.

Cash Position

The University had a cash inflow of £43 million. A net £25.6 million came from the sale of Broadgate with a further £7 million from transferring equities into cash deposits. £37 million was spent on the University's infrastructure and estate, against which capital grants of £18.8 million were received.

The University used £25 million of the cash generated to reduce its senior debt to £24 million. At the Balance Sheet date net cash, short-term deposits and general investment endowments amounted to £23.7 million, and the University had £26.1 million of long term debt.

The University has an unutilised long-term borrowing agreement, which would allow it to borrow up to £90 million.

Capital Projects

The increase of £19.8 million (10%) in consolidated tangible fixed assets reflects investment in the University's teaching and research accommodation. Capital commitments contracted at 31 July 2003 were £14.2 million (2002 - £30.1 million). This includes the University's contributions to the HEFCE Science and Technology Research Investment Funds (SRIF 1 and SRIF 2) which were announced over the last two years, funding buildings in the areas of biosciences, biomolecular sciences, engineering and social sciences. In addition there has been further development of Jubilee Campus, extension to the Portland Building and the Nottingham Medical School at Derby.

Research

The 2001 Research Assessment Exercise awarded five or five star ratings to 26 of the academic schools, which represents almost two thirds of the total research base. This good performance was reflected in the SRIF 1 & 2 allocations.

The SRIF 2 project announced by Lord Sainsbury in February is designed to give English universities the ability to invest in world class facilities to enable vital research in areas such as cancer, heart disease and arthritis, and in the rapidly growing area of nanotechnology. Nottingham will receive nearly £25 million out of £54 million allocated to the eight East Midlands universities. This money allows for the development of the second phase of the Centre for Biomolecular Sciences, the first phase costing £7 million being funded out of the University's SRIF 1 allocations.

Treasurer's Report – *continued*

Developments

Graduates from the University remain among the most sought after in the country. A report compiled on an annual basis by the University's Careers Advisory Service noted that Nottingham remained one of the 10 universities most targeted by employers. The report revealed that, despite the backdrop of economic uncertainty, by six months after their graduation in 2002, just 6% were still looking for long-term employment or were yet to take up further study. In addition the number of graduates in full-time employment or embarking on further study was at the highest level for five years.

Figures published in February by the Universities and Colleges Admission Service, show that Nottingham is Britain's most sought after university, with a total of over 48,000 applications for nearly 5,000 places. This was over 1,000 ahead of our closest rival. Nottingham continues to invest heavily in student facilities, with the major extension to the Portland Building, which houses the Students' Union. The University has also in recent years created the award winning £50 million Jubilee Campus, added over 2,000 additional student accommodation places and new facilities include a fitness centre at the University Sports Centre.

Dr Brian Atkin has succeeded Professor Brian Clayton as Vice-President at the University of Nottingham in Malaysia, with effect from 1 September 2003. Dr Atkin will lead the University in Malaysia through its next phase of development including the move from Kuala Lumpur to a new purpose built campus approximately 35km away. A key challenge will be the planned increase in students with closer collaboration with schools and colleges in the Malaysia.

As noted in last year's report the University and its NHS partners had announced the establishment of a satellite medical school in Derby to train 100 doctors per annum. Construction of the £12 million medical school adjoining clinical sciences building has been completed with the first students commencing their studies in September 2003.

Employment of Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. If existing employees become disabled every effort is made to continue their employment with the University and arrange appropriate training. It is the University's policy that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employee Involvement

The University places considerable value on the involvement of its employees and on good communication with them. The University publishes a fortnightly staff newsletter and separate supplements are published when the need arises. Staff are encouraged to participate in formal and informal consultation at University and School level, sometimes through the membership of formal Committees. The University has a Staff and Education Development Unit that is responsible for providing technical and general training to all levels of staff.

Creditor Payment Policy

It is the University's policy to abide by terms of payment agreed with suppliers. In most cases the University's conditions of purchase apply, in which case payment is made within 30 days after the end of the month of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later. In some cases, the terms of payment are as stated in the supplier's own literature. In other cases, the terms of payment are determined by specific written or oral agreement.

Corporate Governance

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

Conclusion

In common with other UK Universities we have been managing for some years with an increasingly difficult situation over state funding for UK students and research activities. The government has brought forward proposals to introduce discretionary student tuition fees up to £3,000 per annum from 2006 and to require research sponsors to pay full costs for work undertaken by universities. If the proposals are implemented they would start the process of establishing a more satisfactory funding environment and we are awaiting the finalisation of these arrangements. The University's financial position, which is relatively strong compared with the overall University sector, has been further strengthened during the year as a result of the disposal of the Broadgate Park estate which has realised value whilst maintaining the availability of the premises for students. In the short term the proceeds have been used to reduce the debt but the facility negotiated last year allows the University to redraw borrowings when required. The funds generated allow the University to continue its long-term strategic development.

Keith Hamill,
Treasurer
28 October 2003

Governance

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

The University is a corporation formed by Royal Charter with charitable status. Following changes to Charter and Statutes approved by the Privy Council in 1999, the Council is the University's governing body. 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 Council of the University comprises 18 lay, 2 student and 15 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 meet five times a year; and has several Committees, including a Finance and General Purposes Committee, a Strategy and Planning Committee, a Council Membership Committee, a Remuneration Committee and an Audit Committee. All of these Committees are formally constituted with terms of reference and comprise mainly lay members of Council, one of whom is the Chair.

The Finance and General Purposes Committee, which comprises 20 members of which 10 are lay members and 2 are student representatives, 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 13 members of which 7 are lay members, advises the executive and Council on the University's overall objectives and priorities and the strategies and policies to achieve them. The Council Membership Committee considers nominations for vacancies in the Council membership under the relevant Statute. The Remuneration Committee determines the remuneration of professorial and senior administrative staff.

The Audit Committee comprises 7 lay 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 internal control, together with management's response and implementation plans. It also receives and considers reports from 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, 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 4 senior lay officers and the Vice-Chancellor determines personnel policies and salaries of Professors and Senior Officers of the University. The salary of the Vice-Chancellor is determined by the lay officers of the Committee.

The Safety Committee comprises 16 representatives from academic schools and central support service departments and 2 members from the Students Union. Its terms of reference are to formulate safety and environmental policies so as to ensure that the University meets all legislative requirements and best practice standards, and promote and monitor effective implementation of those policies.

Day to day management of the University is via Management Group, comprising the Vice-Chancellor, 5 Pro- Vice-Chancellors, the Chief Financial Officer and the Registrar. Management Group acts as the executive committee of the Strategy and Planning Committee and as an advisory committee to the Vice-Chancellor, 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 Group 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 4 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.

Governance – *continued*

Statement of Internal Control

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. This summary describes the manner in which the University has applied these principles to help the reader of the accounts understand how they have been applied.

Council as the governing body of 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 the 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.

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:

- Council meets 5 times a year to consider the plans and strategic direction for the institution. It is advised by its key Committees, receiving periodic reports from the Audit, Finance and General Purposes and Strategy and Planning Committees and other reports from management as required, including reports on key risks with management's actions and responses.
- 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 the institution's system of internal control.
- An organisation-wide Risk Register is maintained and it is planned to make this available on the University intranet. Facilitated workshops are held to identify risks and keep up to date the Risk Register. In addition, school and department plans identify risks at the operational level.
- Key performance indicators are presented at each Finance and General Purposes Committee and Council meeting. In addition monthly management accounts are presented to Finance and General Purposes Committee.
- The annual budget, forward estimates and major investment proposal are approved by both Finance and General Purposes Committee and Council, following detailed review, challenge and assessment by the University's Management Group.

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 Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in September 1997.

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

Governance – *continued*

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 and General Purposes 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 systems of internal financial control can, however, only provide reasonable, but no absolute, assurance against material misstatement or loss.

Independent Auditor's Report to the Council of the University of Nottingham

We have audited the financial statements which comprise the consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of the Council and auditors

The Council's responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, applicable United Kingdom law and accounting standards is set out in the Statement of the Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Council. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions. We also report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Financial Highlights, the Treasurer's report, and the corporate governance statement.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- i. The financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2003, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the University and the group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions.
- ii. In all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received.
- iii. In all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the Financial Memorandum dated 1 August 2000 with the Higher Education Funding Council for England.



PricewaterhouseCoopers LLP
Donington Court, Pegasus Business Park
Castle Donington, East Midlands
28 October 2003

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 Institutions (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.

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 tangible 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*

Income from Specific Endowments and Donations and Research Grants and Contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. Unspent endowments are shown as Endowment Reserves on the Balance Sheet, whilst unspent donations are classed as deferred income. 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 Earnings-Related Pension Scheme. 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, and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. A small number of staff remain in other pension schemes.

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.

Statement of Principal Accounting Policies – *continued*

7. 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 of up to 100 years and leasehold land 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.

8. Equipment

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).

9. Investments

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

Endowment Asset Investments are included in the Balance Sheet at market value. Current Asset Investments are included at the lower of cost and net realisable value.

10. 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.

11. Liquid Resources

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

12. 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 as asset is capitalised.

13. 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 2003

	Note	2002/2003 £m	2001/2002 £m
INCOME			
Funding Council Grants	1	83.9	77.0
Academic Fees and Support Grants	2	75.1	66.2
Research Grants and Contracts	3	65.2	65.1
Other Operating Income	4	60.8	56.2
Endowment Income and Interest Receivable	5	1.3	0.8
		<hr/>	<hr/>
Total Income		286.3	265.3
EXPENDITURE			
Staff Costs	6	159.8	147.0
Depreciation	10	7.3	6.9
Other Operating Expenses	7	114.4	107.2
Interest Payable	8	2.4	2.2
		<hr/>	<hr/>
Total Expenditure	9	283.9	263.3
Surplus for the Year		2.4	2.0
Share of Losses in Associated Company	11	(0.3)	(0.4)
Surpluses on Disposal of Property		25.4	0.9
		<hr/>	<hr/>
Net Surplus for Year	18	27.5	2.5

The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations.

Statement Of Consolidated Total Recognised Gains And Losses

For the Year Ended 31 July 2003

	Note	2002/2003 £m	2001/2002 £m
Surplus for the Year	18	27.5	2.5
Appreciation/(Depreciation) of Endowment Asset Investments	17	0.9	(6.1)
Net Movement in Retained Endowment Income	17	0.0	0.2
New Endowments	17	0.3	0.3
		<hr/>	<hr/>
TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR		28.7	(3.1)

Balance Sheet

As at 31 July 2003

		Consolidated		University	
	Note	2003 £m	2002 £m	2003 £m	2002 £m
FIXED ASSETS					
Tangible Assets	10	216.0	196.2	214.5	194.5
Investments	11	<u>2.0</u>	<u>1.2</u>	<u>2.4</u>	<u>1.6</u>
		<u>218.0</u>	<u>197.4</u>	<u>216.9</u>	<u>196.1</u>
ENDOWMENT ASSET INVESTMENTS	12	<u>35.4</u>	<u>34.2</u>	<u>35.4</u>	<u>34.2</u>
CURRENT ASSETS					
Stocks		1.2	1.2	1.0	1.1
Debtors	13	52.2	54.4	58.7	59.8
Short Term Investments		6.8	0.7	6.5	0.0
Cash at Bank and in Hand		<u>1.9</u>	<u>0.0</u>	<u>1.8</u>	<u>0.0</u>
		62.1	56.3	68.0	60.9
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	(77.3)	(70.7)	(82.4)	(70.1)
NET CURRENT LIABILITIES		<u>(15.2)</u>	<u>(14.4)</u>	<u>(14.4)</u>	<u>(9.2)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		238.2	217.2	237.9	221.1
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	(28.0)	(51.1)	(27.1)	(54.4)
TOTAL NET ASSETS		<u>210.2</u>	<u>166.1</u>	<u>210.8</u>	<u>166.7</u>
DEFERRED CAPITAL GRANTS	16	64.0	48.6	64.0	48.6
ENDOWMENTS					
Specific	17	20.4	20.7	20.4	20.7
General	17	15.0	13.5	15.0	13.5
		<u>35.4</u>	<u>34.2</u>	<u>35.4</u>	<u>34.2</u>
GENERAL RESERVES	18	110.8	83.3	111.4	83.9
TOTAL FUNDS		<u>210.2</u>	<u>166.1</u>	<u>210.8</u>	<u>166.7</u>

The financial statements on pages 12 to 28 were approved by Council on 28 October 2003 and signed on its behalf by:

COLIN M CAMPBELL
Vice Chancellor

NAZIM A KARIMJEE
Chairman of Finance
and General Purposes Committee

DAVID A BEEBY
Chief Financial Officer

MARTIN WYNNE-JONES
Director of Finance

Consolidated Cash Flow Statement

For the Year Ended 31 July 2003

	Note	2002/2003 £m	2001/2002 £m
Net Cash Inflow from Operating Activities	22	27.9	4.8
Returns on Investments and Servicing of Finance	23	(1.1)	(1.8)
Capital Expenditure and Financial Investment	24	16.2	(10.2)
Cash Inflow/(Outflow) before Use of Liquid Resources and Short-term Investments		<u>43.0</u>	<u>(7.2)</u>
Acquisitions and Disposals	25	(0.4)	(0.9)
Management of Liquid Resources		(6.1)	(0.4)
Financing	26	(24.6)	10.6
INCREASE IN CASH	27	<u><u>11.9</u></u>	<u><u>2.1</u></u>

Reconciliation Of Net Cash Flow To Movement In Net Funds

	2002/2003 £m	2001/2002 £m
Increase in Cash in the Period	11.9	2.1
Increase in Short Term Investments	6.1	0.4
Repayment of Debt	26.6	40.4
New Loans	(2.0)	(51.0)
CHANGE IN NET FUNDS	<u>42.6</u>	<u>(8.1)</u>
NET FUNDS AT 1 AUGUST	<u>(51.6)</u>	<u>(43.5)</u>
NET FUNDS AT 31 JULY	27 <u><u>(9.0)</u></u>	<u><u>(51.6)</u></u>

Notes to the Accounts

1. Funding Council Grants	HEFCE 2002/2003 £m	TTA 2002/2003 £m	Total 2002/2003 £m	Total 2001/2002 £m
Recurrent Grants	75.7	1.3	77.0	71.7
Specific Grants	5.3	0.7	6.0	4.3
Deferred Capital Grants Released in Year				
Buildings (Note 16)	0.7	0.0	0.7	0.6
Equipment (Note 16)	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>	<u>0.4</u>
Total from Funding Councils	<u>81.9</u>	<u>2.0</u>	<u>83.9</u>	<u>77.0</u>

2. Academic Fees and Support Grants	2002/2003 £m	2001/2002 £m
Full-time credit bearing courses - home fees	19.9	18.0
Full-time credit bearing courses - international fees	30.9	24.6
Part-time credit bearing courses	2.4	2.3
Other teaching contracts	17.8	16.7
Non credit bearing courses and other fees	<u>4.1</u>	<u>4.6</u>
	<u>75.1</u>	<u>66.2</u>

3. Research Grants and Contracts	2002/2003 £m	2001/2002 £m
Research Councils	22.7	25.0
UK Based Charities	11.4	11.2
Other Grants and Contracts	29.0	26.9
Released from Deferred Capital Grants (Note 16)	<u>2.1</u>	<u>2.0</u>
	<u>65.2</u>	<u>65.1</u>

4. Other Operating Income	2002/2003 £m	2001/2002 £m
Residences, Catering and Conferences	30.6	29.2
Other Services Rendered	14.4	12.1
Health Authorities	5.4	5.1
Released from Deferred Capital Grants (Note 16)	0.2	0.2
Other Income	<u>10.2</u>	<u>9.6</u>
	<u>60.8</u>	<u>56.2</u>

Notes to the Accounts - *continued*

5. Endowment Income and Interest Receivable

	2002/2003 £m	2001/2002 £m
Transferred from Specific Endowments (Note 17)	0.3	0.4
Income from General Endowment Asset Investments (Note 17)	0.3	0.3
Other Interest Receivable	<u>0.7</u>	<u>0.1</u>
	<u>1.3</u>	<u>0.8</u>

6. Staff

	2002/2003 £m	2001/2002 £m
Staff Costs:		
Gross Pay	136.6	125.7
Social Security Costs	9.9	9.0
Other Pension Costs (Note 28)	<u>13.3</u>	<u>12.3</u>
	<u>159.8</u>	<u>147.0</u>

	2002/2003 £000	2001/2002 £000
Emoluments of the Vice Chancellor	<u>167</u>	<u>158</u>

The emoluments of the Vice Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to USS are paid at the same rates as for other academic staff and amounted to £26,934 (2001/2002 - £25,243).

Compensation for loss of office paid to employees earning in excess of £70,000 per annum.	<u>38</u>	<u>35</u>
---	-----------	-----------

	Number	Number
Average Staff Numbers by Major Category:		
Teaching and Research	2,319	2,260
Technical	524	536
Administrative	523	499
Other, including Clerical and Manual	<u>1,782</u>	<u>1,747</u>
	<u>5,148</u>	<u>5,042</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:

	Number	Number
£70,000 - £79,999	32	33
£80,000 - £89,999	21	13
£90,000 - £99,999	19	19
£100,000 - £109,999	9	5
£110,000 - £119,999	9	11
£120,000 - £129,999	6	4
£123,000 - £139,999	5	3
£140,000 - £149,999	0	1
£150,000 - £159,999	1	0

Notes to the Accounts - *continued*

7. Other Operating Expenses

	2002/2003 £m	2001/2002 £m
Purchase, Hire and Repair of Equipment	14.2	13.9
Consumables and Laboratory Expenditure	12.1	12.8
Published Materials	3.4	3.1
Travel and Subsistence	6.7	6.8
Professional fees	11.2	10.0
Fellowships, Scholarships, Prizes and Other fees	20.5	18.1
Catering Supplies	5.0	5.2
Repairs and General Maintenance	11.6	11.8
Heat, Light, Water and Power	6.1	4.9
Rent, Rates and Insurance	6.2	4.1
Grants to University of Nottingham Students Union	0.9	0.9
Auditors' Remuneration	0.2	0.2
Training	1.0	1.0
Advertising	1.6	1.5
Other Expenses	<u>13.7</u>	<u>12.9</u>
	<u>114.4</u>	<u>107.2</u>

Auditors' Remuneration includes £51,500 in respect of audit services for the group of which £44,000 relates to the University. (The 2001/2002 expenditure was £50,000 and £44,000 respectively).

8. Interest Payable

	2002/2003 £m	2001/2002 £m
Loans not wholly repayable within five years	2.3	2.1
Finance Leases	<u>0.1</u>	<u>0.1</u>
	<u>2.4</u>	<u>2.2</u>

9. Analysis Of 2002/2003 Expenditure By Activity

	Staff Costs £m	Dep'n £m	Other Operating Expenses £m	Interest Payable £m	Total £m
Academic Departments	90.7	1.2	26.5	0.0	118.4
Research Grants and Contracts	<u>26.3</u>	<u>2.1</u>	<u>25.1</u>	<u>0.0</u>	<u>53.5</u>
Total Teaching and Research	117.0	3.3	51.6	0.0	171.9
Academic Services	11.6	0.6	9.9	0.0	22.1
Administration	11.5	0.0	11.9	0.0	23.4
Premises	5.9	2.7	16.1	0.1	24.8
Residences, Catering and Conferences	8.3	0.6	16.2	1.1	26.2
Other Expenses	<u>5.5</u>	<u>0.1</u>	<u>8.7</u>	<u>1.2</u>	<u>15.5</u>
Total per Income and Expenditure Account	<u>159.8</u>	<u>7.3</u>	<u>114.4</u>	<u>2.4</u>	<u>283.9</u>

Notes to the Accounts - *continued*

10. Tangible Assets

	CONSOLIDATED				
	Land and Buildings Freehold £m	Long Leasehold £m	Equipment £m	Leased Equipment £m	Total £m
Cost					
At 1 August 2002	194.0	13.8	30.3	6.0	244.1
Additions at Cost	32.7	0.9	4.2	0.0	37.8
Disposals	(12.6)	0.0	(0.1)	0.0	(12.7)
At 31 July 2003	<u>214.1</u>	<u>14.7</u>	<u>34.4</u>	<u>6.0</u>	<u>269.2</u>
Depreciation					
At 1 August 2002	22.1	1.1	20.4	4.3	47.9
Charge for Year	3.0	0.2	3.9	0.2	7.3
Eliminated on Disposals	(1.9)	0.0	(0.1)	0.0	(2.0)
At 31 July 2003	<u>23.2</u>	<u>1.3</u>	<u>24.2</u>	<u>4.5</u>	<u>53.2</u>
Net Book Value					
At 31 July 2003	<u>190.9</u>	<u>13.4</u>	<u>10.2</u>	<u>1.5</u>	<u>216.0</u>
At 1 August 2002	<u>171.9</u>	<u>12.7</u>	<u>9.9</u>	<u>1.7</u>	<u>196.2</u>

	UNIVERSITY				
	Land and Buildings Freehold £m	Long Leasehold £m	Equipment £m	Leased Equipment £m	Total £m
Cost					
At 1 August 2002	194.0	13.8	30.3	0.8	238.9
Additions at Cost	32.7	0.9	4.2	0.0	37.8
Disposals	(12.6)	0.0	(0.1)	0.0	(12.7)
At 31 July 2003	<u>214.1</u>	<u>14.7</u>	<u>34.4</u>	<u>0.8</u>	<u>264.0</u>
Depreciation					
At 1 August 2002	22.1	1.1	20.4	0.8	44.4
Charge for Year	3.0	0.2	3.9	0.0	7.1
Eliminated on Disposals	(1.9)	0.0	(0.1)	0.0	(2.0)
At 31 July 2003	<u>23.2</u>	<u>1.3</u>	<u>24.2</u>	<u>0.8</u>	<u>49.5</u>
Net Book Value					
At 31 July 2003	<u>190.9</u>	<u>13.4</u>	<u>10.2</u>	<u>0.0</u>	<u>214.5</u>
At 1 August 2002	<u>171.9</u>	<u>12.7</u>	<u>9.9</u>	<u>0.0</u>	<u>194.5</u>

Notes to the Accounts - *continued*

11. Investments

	Consolidated		University	
	2003 £m	2002 £m	2003 £m	2002 £m
Subsidiary Companies	0.0	0.0	0.4	0.4
Associated Companies	0.5	0.4	0.5	0.4
Investments	<u>1.5</u>	<u>0.8</u>	<u>1.5</u>	<u>0.8</u>
	<u>2.0</u>	<u>1.2</u>	<u>2.4</u>	<u>1.6</u>

The University 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	100,000
UN Property Services Limited	2
UN Contracting Services Limited	2
UN Property Management Limited	2
UN Teaching Services Limited	2

The consolidated results of the group incorporate those of Mainpaper Limited and Nottingham University Foundation Limited, companies granted charitable status in January 1999 and April 2003 respectively, which are registered and operating in the UK.

Investment in Associated companies	Consolidated £m
As at 1 August 2002	0.4
Shares acquired in University of Nottingham in Malaysia	0.4
Group's share of retained losses	<u>(0.3)</u>
As at 31 July 2003	<u>0.5</u>

The University owns 25% of the ordinary share capital of the University of Nottingham in Malaysia (UNiM), a company incorporated in Malaysia. UNiM has a financial year end of 31 December in common with its majority shareholder. The University's total investment in UNiM is £1.6 million. In the books of the University this has been written down to reflect a carrying value in line with that in the consolidated accounts.

12. Endowment Asset Investments

	Consolidated and University 2003 £m
Balance at 1 August 2002	34.2
Additions	42.0
Disposals	(49.1)
Depreciation on Disposals/Revaluation	0.9
Increase in Cash Balances	<u>7.4</u>
Balance at 31 July 2003	<u>35.4</u>
Represented by:	
Fixed Interest Stocks	3.8
Equities	16.0
Land and Property	4.7
Cash Balances (Note 27)	<u>10.9</u>
	<u>35.4</u>

Land and property valuations as at 31 July have been made by senior management on the advice of firms of Chartered Surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

Notes to the Accounts - *continued*

13. Debtors

	Consolidated		University	
	2003 £m	2002 £m	2003 £m	2002 £m
Amounts falling due within one year:				
Debtors	21.5	30.8	20.3	29.5
Amounts due from Subsidiaries	0.0	0.0	7.8	6.7
Prepayments and accrued income	30.7	23.6	30.6	23.6
	<u>52.2</u>	<u>54.4</u>	<u>58.7</u>	<u>59.8</u>

14. Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank Overdraft	0.0	2.5	0.0	2.7
Obligations under Finance Leases (Note 19)	0.2	0.1	0.0	0.0
Secured Loans (Note 15)	0.0	2.0	0.0	2.0
Hefce Loans	0.4	0.0	0.4	0.0
Payments Received in Advance	2.3	1.6	2.0	1.4
Creditors	7.9	5.8	7.4	5.6
Social Security and Other Taxation Payable	6.0	4.6	6.1	4.9
Amounts due to Subsidiaries	0.0	0.0	6.6	0.2
Accruals and Deferred Income	60.5	54.1	59.9	53.3
	<u>77.3</u>	<u>70.7</u>	<u>82.4</u>	<u>70.1</u>

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

	Consolidated		University	
	2003 £m	2002 £m	2003 £m	2002 £m
Loans from Subsidiaries	0.0	0.0	1.0	5.4
Secured loans	24.8	49.0	24.8	49.0
Secured loans	1.3	0.0	1.3	0.0
	<u>26.1</u>	<u>49.0</u>	<u>27.1</u>	<u>54.4</u>
Obligations under Finance Leases (Note 19)	1.9	2.1	0.0	0.0
	<u>28.0</u>	<u>51.1</u>	<u>27.1</u>	<u>54.4</u>

The secured loans are with the Royal Bank of Scotland at a rate which is 0.375% above LIBOR. The primary facility is for £50 million over 25 years, reducing quarterly on a straight-line basis. There are no formal repayment terms.

An additional £25 million facility is available up to July 31 2006 as a 364 day facility convertible to 25 year loans.

The University has the ability to repay and redraw against the facility over the period of the loans. The loans are secured against certain Halls of Residence.

Notes to the Accounts - *continued*

16. Deferred Capital Grants

	Consolidated and University		
	Funding Council £m	Other Grants & Benefactions £m	Total £m
At 1 August 2002			
Buildings	27.3	15.9	43.2
Equipment	<u>1.0</u>	<u>4.4</u>	<u>5.4</u>
Total	<u>28.3</u>	<u>20.3</u>	<u>48.6</u>
Grants Received			
Buildings	15.6	1.6	17.2
Equipment	<u>0.6</u>	<u>1.0</u>	<u>1.6</u>
Total	<u>16.2</u>	<u>2.6</u>	<u>18.8</u>
Released to Income and Expenditure			
Buildings (Notes 1 and 4)	(1.0)	(0.3)	(1.3)
Equipment (Notes 1, 3 and 4)	<u>(0.2)</u>	<u>(1.9)</u>	<u>(2.1)</u>
Total	<u>(1.2)</u>	<u>(2.2)</u>	<u>(3.4)</u>
At 31 July 2003			
Buildings	41.9	17.2	59.1
Equipment	<u>1.4</u>	<u>3.5</u>	<u>4.9</u>
Total	<u>43.3</u>	<u>20.7</u>	<u>64.0</u>

17. Endowments

	Consolidated and University		
	Specific £m	General £m	Total £m
At 1 August 2002	20.7	13.5	34.2
Additions	0.0	0.3	0.3
Appreciation/(Depreciation) of Endowment Asset Investments	(0.3)	1.2	0.9
Income for Year	0.3	0.3	0.6
Transferred to Income and Expenditure Account	<u>(0.3)</u>	<u>(0.3)</u>	<u>(0.6)</u>
At 31 July 2003	<u>20.4</u>	<u>15.0</u>	<u>35.4</u>
Representing:			
Fellowships and Scholarships Funds	2.6	0.0	2.6
Prizes Funds	0.8	0.0	0.8
Chairs and Lectureships Funds	10.8	0.0	10.8
Other Funds	<u>6.2</u>	<u>15.0</u>	<u>21.2</u>
	<u>20.4</u>	<u>15.0</u>	<u>35.4</u>

Notes to the Accounts - *continued*

18. General Reserves

	Consolidated £m	University £m
Balance at 1 August 2002	83.3	83.9
Surplus for the Year	<u>27.5</u>	<u>27.5</u>
Balance at 31 July 2003	<u><u>110.8</u></u>	<u><u>111.4</u></u>

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 losses was £27.3m (2002: £2.3m).

19. Lease Obligations

	Consolidated		University	
	2002/2003 £m	2001/2002 £m	2002/2003 £m	2001/2002 £m
Obligations under finance leases fall due as follows:				
Between two and five years	1.1	1.0	0.0	0.0
Over five years	<u>0.8</u>	<u>1.1</u>	<u>0.0</u>	<u>0.0</u>
Total over one year (Note 15)	1.9	2.1	0.0	0.0
Within one year (Note 14)	<u>0.2</u>	<u>0.1</u>	<u>0.0</u>	<u>0.0</u>
	<u><u>2.1</u></u>	<u><u>2.2</u></u>	<u><u>0.0</u></u>	<u><u>0.0</u></u>
Operating lease commitments in respect of equipment for the forthcoming financial year, on leases expiring:				
Within one year	0.0	0.0	0.0	0.0
Between two and five years	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>
	<u><u>0.2</u></u>	<u><u>0.1</u></u>	<u><u>0.2</u></u>	<u><u>0.1</u></u>

20. Capital Commitments

	Consolidated		University	
	2003 £m	2002 £m	2003 £m	2002 £m
Commitments contracted at 31 July	<u>14.2</u>	<u>30.1</u>	<u>14.2</u>	<u>30.1</u>

21. Related party transactions

The University of Nottingham owns a 25% stake in the University of Nottingham in Malaysia (UNiM), which is accounted for as an associated entity (see note 11).

Certain academic members of staff are seconded to UNiM for periods of up to 3 years. The University has responsibility for the academic quality of UNiM, for which it receives a management fee. Certain costs incurred by both the University and UNiM are rechargeable to the other institution in accordance with a signed agreement. During the year, net costs amounting to £120,000 (2002: £157,000) were recharged by the University to UNiM and £133,000 (2002: £87,000) was charged in relation to the management fee. At the year end UNiM owed the University £278,000 (2002: £229,000). Additional share capital of £0.4m (2002: £0.9m) has also been invested by the University during the year.

Notes to the Accounts - *continued*

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

	2002/2003 £m	2001/2002 £m
Surplus for the Year	27.5	2.5
Depreciation (Note 10)	7.3	6.9
(Profit)/Loss on disposal of Fixed Assets	(0.4)	0.1
Surplus on disposal of Broadgate	(25.4)	0.0
Share of losses in associated company	0.3	0.4
Deferred Capital Grants Released to Income	(3.1)	(3.2)
Investment Income (Note 5)	(1.3)	(0.8)
Interest Paid	2.4	2.2
Net Income Retained in Specific Endowments	0.0	0.2
Decrease/(Increase) in Debtors	11.4	(11.1)
Increase in Creditors	<u>9.2</u>	<u>7.6</u>
Net Cash Inflow from Operating Activities	<u>27.9</u>	<u>4.8</u>

23. Returns On Investments And Servicing Of Finance

	2002/2003 £m	2001/2002 £m
Income from Endowments	0.6	0.6
Other Interest Received	0.7	0.1
Interest Paid	<u>(2.4)</u>	<u>(2.5)</u>
Net Cash Outflow from Returns on Investments and Servicing of Finance	<u>(1.1)</u>	<u>(1.8)</u>

24. Capital Expenditure And Financial Investment

	2002/2003 £m	2001/2002 £m
Payments to Acquire Tangible Assets	(37.0)	(20.4)
Payments to Acquire Endowment Asset Investments (Note 12)	<u>(42.0)</u>	<u>(5.3)</u>
Total Payments to Acquire Fixed and Endowment Asset Investments	(79.0)	(25.7)
Receipts from Sales of Endowment Assets (Note 12)	49.1	5.0
Receipts from Sales of Fixed Assets	1.4	0.0
Receipts from Sale of Broadgate Park (Note 30)	25.6	0.0
Deferred Capital Grants Received (Note 16)	18.8	10.2
Endowments Received (Note 17)	<u>0.3</u>	<u>0.3</u>
Net Cash Inflow/(Outflow) from Investing Activities	<u>16.2</u>	<u>(10.2)</u>

Notes to the Accounts - *continued*

25. Acquisitions and Disposals

	2002/2003 £m	2001/2002 £m
Payments to Acquire Share Capital in Associate	<u>(0.4)</u>	<u>(0.9)</u>

26. Analysis Of Changes In Consolidated Financing During The Year

	Total £m	Finance Leases £m	Mortgages and Loans £m
Balances at 1 August 2002	<u>53.2</u>	<u>2.2</u>	<u>51.0</u>
New Leases/Loans	2.0	0.0	2.0
Capital Repayments	<u>(26.6)</u>	<u>(0.1)</u>	<u>(26.5)</u>
Net Amount Received (Repaid) in Year	<u>(24.6)</u>	<u>(0.1)</u>	<u>(24.5)</u>
Balances at 31 July 2003	<u>28.6</u>	<u>2.1</u>	<u>26.5</u>

27. Analysis Of Changes In Net Funds

	At 1 August 2002 £m	Cash Flows £m	At 31 July 2003 £m
Cash			
Endowment Asset Investments (Note 12)	3.4	7.5	10.9
Cash at Bank and in hand/Bank Overdraft	(2.5)	4.4	1.9
	<u>0.9</u>	<u>11.9</u>	<u>12.8</u>
Short Term Investments	0.7	6.1	6.8
Debt due within one year	(2.1)	1.5	(0.6)
Debt due after one year	<u>(51.1)</u>	<u>23.1</u>	<u>(28.0)</u>
	<u>(51.6)</u>	<u>42.6</u>	<u>(9.0)</u>

Notes to the Accounts - *continued*

28. 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.

USS

The institution participates in the Universities Superannuation Scheme, a defined benefit scheme, which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. 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 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits, which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries..

Surpluses or deficits which, arise at future valuations may impact on the institution's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2005 when the above rates will be reviewed.

CPAS

The University operates a defined benefit scheme the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). A full actuarial valuation was carried out at 1 August 2002. The results of that valuation have been projected to 31 July 2003 and then recalculated based on the following assumptions:

	At 31/07/2003	At 31/07/2002
Rate of increase in salaries	3.50%	3.50%
LPI increases for pensions in payment	3.00%	3.00%
Liability discount rate	5.50%	6.25%
Inflation assumption	2.50%	2.50%
Revaluation of deferred pensions	2.50%	2.50%

Notes to the Accounts - *continued*

28. Pension Schemes — continued

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

	Long-term Rate of Return Expected at 31 July 2003	Value at 31 July 2003 £m	Long-term Rate of Return Expected at 31 July 2002	Value at 31 July 2002 £m
Equities	6.50%	37.5	7.00%	34.0
Bonds	4.50%	10.5	5.00%	11.6
Property	6.50%	2.4	7.00%	1.1
Cash	4.50%	<u>1.0</u>	5.00%	<u>1.2</u>
Total Market Value of Assets		51.4		(47.9)
Present Value of Scheme Liabilities		<u>(81.0)</u>		<u>(59.1)</u>
Deficit in the Scheme		<u>(29.6)</u>		<u>(11.2)</u>
Revised Net Assets Incorporating Net Pension Liability		<u>180.6</u>		<u>154.9</u>

Analysis of the Amount that would be Recognised in the Income and Expenditure Account:

	31 July 2003 £m	31 July 2002 £m
Current Service Cost	(3.1)	(2.5)
Expected Return on Pension Scheme Assets	3.1	3.8
Interest on Pension Scheme Liabilities	<u>(3.8)</u>	<u>(3.5)</u>
	<u>(3.8)</u>	<u>(2.2)</u>

Analysis of Amount that would be Recognised in Statement of Total Recognised Gains and Losses:

	31 July 2003 £m	31 July 2002 £m
Actual Return less Expected Return on Pension Scheme Assets	(0.3)	(12.0)
Experience Gains and Losses Arising on the Scheme Liabilities	(4.5)	—
Changes in Assumptions Underlying the Present Value of the Scheme Liabilities	<u>(11.3)</u>	<u>1.1</u>
	<u>(16.1)</u>	<u>(10.9)</u>

Notes to the Accounts - *continued*

28. Pension Schemes — continued

Movement in Surplus during the Year:

	31 July 2003	31 July 2002
	£m	£m
(Deficit)/Surplus in scheme at start of year	(11.2)	0.6
Current Service Cost	(3.1)	(2.5)
Contributions	1.5	1.3
Past Service Costs	—	—
Other Finance Income	(0.7)	0.3
Actuarial loss	(16.1)	(10.9)
Curtailement	—	—
Deficit in Scheme at Year End	<u>(29.6)</u>	<u>(11.2)</u>

Following the full actuarial valuation at 1 August 2002 benefits were reduced and employer contributions have been agreed at the rate of 13.40 per cent of pensionable pay plus the cost of insuring death benefits. Active members pay on average at the rate of 5.00 per cent of pensionable pay.

History of Experience Gains and Losses

	31 July 2003	31 July 2002
Difference between the Expected and Actual Return on Scheme Assets:		
Amount (£m)	(0.3)	(12.0)
Percentage of the Scheme Assets	(1%)	(25%)

Experience Gains and Losses on Scheme Liabilities:

Amount (£m)	(4.5)	0.0
Percentage of the Present Value of the Scheme Liabilities	(6%)	0%

Total Amount Recognised in Statement of Total Recognised Gains and Losses:

Amount (£m)	(16.2)	(10.9)
Percentage of the Present Value of the Scheme Liabilities	(20%)	(18%)

The Total Pension Cost for the University and its Subsidiaries was:

	2002/2003	2001/2002
	£m	£m
Contributions to USS	11.3	10.3
Contributions to CPAS	1.5	1.5
Contributions to Other Pension Schemes	<u>0.5</u>	<u>0.5</u>
Total Pension Cost (Note 6)	<u>13.3</u>	<u>12.3</u>

Notes to the Accounts - *continued*

29. Access Funds

	2002/2003 £000	2001/2002 £000
Balance at 1 August	0.2	0.2
Funding Council Grants	<u>0.4</u>	<u>0.5</u>
	0.6	0.7
Disbursed to Students	<u>(0.4)</u>	<u>(0.5)</u>
Balance Unspent at 31 July	<u>0.2</u>	<u>0.2</u>

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.

30. Surplus on Disposal of Property

	2002/2003 £m
Sale Proceeds	
Proceeds from Sale – Received	26.4
Proceeds from Sale – Debtor	<u>10.6</u>
Total Sale Proceeds	37.0
Costs of Disposal	
Costs Associated with Sale – Paid	(0.8)
Provision for further Costs Associated with Sale – Creditor	(0.4)
Net Book Value of Assets Disposed of	<u>(10.4)</u>
Total Costs of Disposal	<u>(11.6)</u>
Net Surplus on Disposal	<u>25.4</u>

The exceptional items relates to the disposal of Broadgate Park, whereby the University has granted a 35 year finance lease over the site.

The University received £26.4 million in July, the balance of the proceeds was dependent on planning permission being granted to redevelop and expand the estate to provide in excess of 2,200 rooms. Planning permission was granted by the two relevant Councils in July and September and as a consequence the second tranche of money has been included within these accounts.

The net cash effect of this transaction shown within these accounts is £25.6 million as shown in note 24.



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