



The University of
Nottingham

Financial Statements



The University of Nottingham
For the year ended 31 July 2004

The Council

As at 31 July 2004

President: J R Haylock (to 31/12/2003)
K Hamill (from 1/1/2004) **Vice-President:** J Forman Hardy

Members ex-Officio

The Chancellor: Professor Fujia Yang
The Pro-Chancellor: A H Hawksworth (to 14/4/2004)
The Vice-Chancellor: Professor Sir Colin Campbell*
The Treasurer: K Hamill (to 31/12/2003)
N A Karimjee (from 1/1/2004)
The Pro-Vice-Chancellors: Professor S H Bailey*
Professor P A Gillies*
Professor I T M Gow*
Professor D Grierson OBE*
Professor H F Sewell*
Professor D G Tallack*

* University Employee

Lay Members Appointed by the Council

A Colquhoun
J Forman Hardy
D Garnham
A Greenwood
N A Karimjee (to 31/12/2003)
I Lindsey OBE
M McNamara
Sir R Phillis
M L Rossi
Professor S Russell
M Suthers OBE
A Wilkinson

Lay Members Appointed by The University Association

Professor B R Clayton
M S Curry

Senior Officers:

The Registrar: K H Jones (Secretary to Council)
Chief Financial Officer: D A Beeby
Director of Finance: M Wynne-Jones

Academic Members Appointed by the Senate

Professor D J Birch
Dr M L Clarke
Dr C Hall
Dr E Lester
Dr K C Lowe
Professor D S Riley
Dr P A Wright
Dr C M Wykes

Appointed by the Union of Students

R Davidson
J Law

Financial Statements for the year to 31 July 2004

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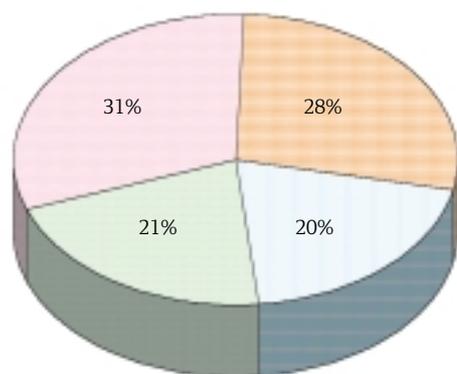
Financial Highlights

Consolidated Income and Expenditure Account

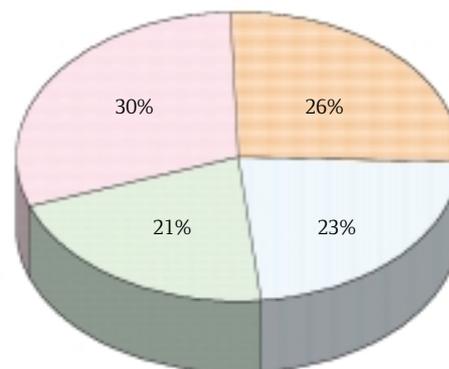
	2004 £ million	2003 £ million	Change %
Funding Council Grants	92.2	83.9	10.0
Academic Fees and Support Grants	85.4	75.1	13.7
Research Grants and Contracts	60.1	65.2	(7.8)
Other Operating Income	64.4	60.8	5.9
Endowment Income and Interest	<u>1.4</u>	<u>1.3</u>	
TOTAL INCOME	<u><u>303.5</u></u>	<u><u>286.3</u></u>	6.0
SURPLUS FOR THE YEAR	0.5	2.4	
Share of losses in associated company	(0.3)	(0.3)	
Surpluses on disposal of property	<u>0.0</u>	<u>25.4</u>	
NET SURPLUS FOR THE YEAR	<u><u>0.2</u></u>	<u><u>27.5</u></u>	
TOTAL NET ASSETS	<u><u>219.7</u></u>	<u><u>210.2</u></u>	

INCOME ANALYSIS GRAPH

2004

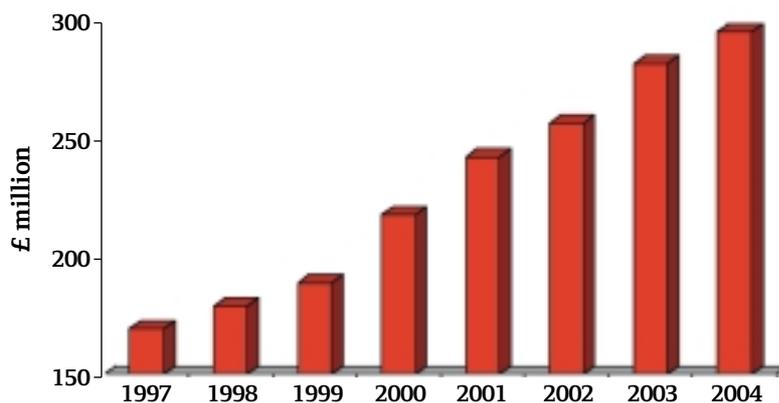


2003



- Funding Council Grants
- Academic Fees & Support Grants
- Research Grants & Contracts
- Other Operating Income

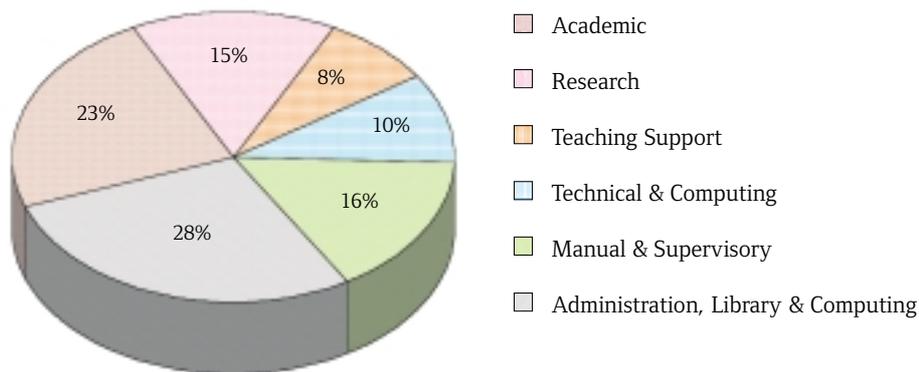
TOTAL INCOME



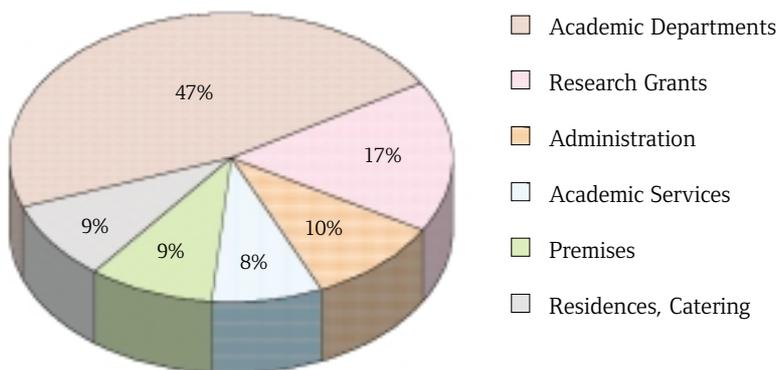
Financial Highlights

Key Statistics	2004	2003
Number of full-time Students	22,808	21,244
Total number of students	29,556	27,887
Number of Subject Areas Rated as Excellent for Teaching	27	27
Number of Grade 5 and 5* Research Departments	26	26
Staff FTEs	5,250	5,145

STAFF ANALYSIS



EXPENDITURE ANALYSIS



Vice-Chancellor's Statement

The challenges for higher education in general and for this university in particular came thick and fast in 2004.

Parliament may have thrown the sector a financial lifeline when it voted for legislation, which allows universities to charge higher tuition fees from 2006. At the same time it laid down some fairly stiff conditions on widening access and fairer admissions.

The Government-sponsored Lambert Report, authored by a former editor of the *Financial Times*, revealed how universities interact with private industry and commerce, and found much to admire in the way academia transfers its 'blue-skies' research to the market place. But it also challenged the sector to be much more pro-active in its marketing of innovation, and urged a much greater higher education contribution to the United Kingdom economy.

In each of these two important areas, Nottingham will rise to the challenge and play a leading role.

The University has been a leading advocate of the right to charge higher fees, while at the same time making it abundantly clear that it would devote a substantial proportion of the extra income to scholarships and bursaries for less well off students. In the field of marketing innovation, the University is one of the acknowledged leaders in encouraging income and job creating companies to 'spin-out' from academia.

The world's fastest-growing economy, the People's Republic of China, gave The University of Nottingham immense cause for pride when it invited us to become the first overseas institution to be invited to open a campus on its territory. The challenge it poses is considerable but the ground-breaking ceremony for the new campus took place in April and the Foundation Year was launched successfully in September.

The University also faces regional challenges. The tremendous rise in the numbers of young people entering higher education has meant a commensurate growth in the student population in many of the residential areas surrounding our campuses. The University is committed to working with the local authorities and other agencies to ensure that the relationship is harmonious.

Whether at home or abroad, whether the test is political, financial or social, The University of Nottingham is rising to the challenges offered. Exactly how we are tackling each issue is the theme of the *Annual Review 2004*.

Sir Colin Campbell

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 channelled through a limited company. The subsidiaries covenant their profits to the University.

Business Review

The University's income increased by 6% to £304 million. Expenditure increased by 7% to £303 million, the majority of the increase being staff costs, which rose 9% to £174 million.

The overall result was a surplus of £0.2 million compared to £2.1million last year (before the exceptional surplus of £25.4 million from the disposal of Broadgate Park). The modest surplus is after significant investment in new academics and research initiatives, using some of the proceeds from the Broadgate sale and is therefore a commendable performance.

Treasurer's Report – *continued*

Liquidity

The University invested £33 million in its infrastructure and estate. This was funded by £12 million of capital grants, £4 million increase in the loans, with the balance from working capital.

At the 31 July the University had long term loans of £32 million off-set by £23 million of cash and General Endowment investments.

The University has an agreed facility to borrow up to £90 million.

Capital Projects

Major projects completed in the year, with their total cost, include the following:

- University of Nottingham Medical School at Derby £9 million
- Portland Building, University Park £9 million
- Research and Innovation building on the Jubilee Campus £9 million
- Biomolecular Sciences building, University Park £7 million
- Social Sciences Research building, University Park £3 million
- Large Animal Facility at Sutton Bonington £2 million

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 published 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.

Compliance

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

External Auditors

Under the University's Governance procedures the external audit was put out to tender and Deloitte & Touche LLP were appointed with effect from 1 August 2004. The change follows a long and successful relationship with PricewaterhouseCoopers LLP.

Conclusion

The University faces difficult and challenging times, but its strong financial position and sound management continues to deliver a commendable performance. Its financial strength should ensure it can look forward to the future challenges.

Nazim Karimjee,
Treasurer
26 October 2004

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 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.

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 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 risk management, internal control and governance, 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 the 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 Staff Policy Committee which, comprises 12 members of which 5 are lay members determines the University's human resources strategies and policies; this will include policies regarding staff development, career planning, pay and conditions of service and the formulation of recommendations for review and approval by Council.

The Equality & Diversity Committee (which reports also to Senate) is responsible for defining the overall Equality & Diversity goals of the University, taking account of legal obligations and best practice. It is chaired by a lay member with 2 further lay members and 7 academic members.

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, 6 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 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 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 systems of risk management, internal control and governance.
- An organisation-wide Risk Register is maintained and is available on the University intranet. Consultation is held across the University to assist in identifying 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 March 2004.

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 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 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 in accordance with 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 of the institution. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education 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 audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the institution'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.

In our opinion

- The financial statements give a true and fair view of the state of affairs of the institution and the group at 31 July 2004, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the institution and the group for the year then ended; and the statements have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education.
- 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 institution have been applied only for the purposes for which they were received.
- In all material respects, income has been applied in accordance with the institution's statutes and where appropriate in accordance with the financial memorandum with the Higher Education Funding Council for England.



PricewaterhouseCoopers LLP
Donington Court, Pegasus Business Park
Castle Donington, East Midlands
26 October 2004

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 an 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 2004

	Note	2004 £m	2003 £m
INCOME			
Funding Council Grants	1	92.2	83.9
Academic Fees and Support Grants	2	85.4	75.1
Research Grants and Contracts	3	60.1	65.2
Other Operating Income	4	64.4	60.8
Endowment Income and Interest	5	<u>1.4</u>	<u>1.3</u>
Total Income		<u>303.5</u>	<u>286.3</u>
EXPENDITURE			
Staff Costs	6	174.0	159.8
Depreciation	10	8.1	7.3
Other Operating Expenses	7	119.7	114.4
Interest	8	<u>1.2</u>	<u>2.4</u>
Total Expenditure	9	<u>303.0</u>	<u>283.9</u>
Surplus for the Year		0.5	2.4
Share of losses in associated company	11	(0.3)	(0.3)
Surplus on disposal of property		<u>0.0</u>	<u>25.4</u>
NET SURPLUS FOR YEAR	18	<u><u>0.2</u></u>	<u><u>27.5</u></u>

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 2004

	Note	2004 £m	2003 £m
Surplus for the Year	18	0.2	27.5
Appreciation/(Depreciation) of Endowment Asset Investment	17	0.9	0.9
(Transfer from)/New Endowments	17	<u>(0.2)</u>	<u>0.3</u>
TOTAL RECOGNISED GAINS/(LOSSES) RELATING TO THE YEAR		<u><u>0.9</u></u>	<u><u>28.7</u></u>

Balance Sheet

As at 31 July 2004

	Note	Consolidated		University	
		2004 £m	2003 £m	2004 £m	2003 £m
FIXED ASSETS					
Tangible Assets	10	237.6	216.0	236.3	214.5
Investments	11	<u>2.9</u>	<u>2.0</u>	<u>3.3</u>	<u>2.4</u>
		<u>240.5</u>	<u>218.0</u>	<u>239.6</u>	<u>216.9</u>
ENDOWMENT ASSET INVESTMENTS	12	<u>34.1</u>	<u>35.4</u>	<u>34.1</u>	<u>35.4</u>
CURRENT ASSETS					
Stocks		1.2	1.2	1.1	1.0
Debtors	13	44.2	52.2	52.4	58.7
Short Term Investments		7.8	6.8	7.4	6.5
Cash at Bank and in Hand		<u>2.7</u>	<u>1.9</u>	<u>2.6</u>	<u>1.8</u>
		55.9	62.1	63.5	68.0
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(76.6)</u>	<u>(77.3)</u>	<u>(77.8)</u>	<u>(82.4)</u>
NET CURRENT LIABILITIES		<u>(20.7)</u>	<u>(15.2)</u>	<u>(14.3)</u>	<u>(14.4)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		253.9	238.2	259.4	237.9
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	<u>(34.2)</u>	<u>(28.0)</u>	<u>(39.0)</u>	<u>(27.1)</u>
TOTAL NET ASSETS		<u>219.7</u>	<u>210.2</u>	<u>220.4</u>	<u>210.8</u>
DEFERRED CAPITAL GRANTS	16	<u>72.7</u>	<u>64.0</u>	<u>72.7</u>	<u>64.0</u>
ENDOWMENTS					
Specific	17	21.5	20.4	21.5	20.4
General	17	<u>12.6</u>	<u>15.0</u>	<u>12.6</u>	<u>15.0</u>
		34.1	35.4	34.1	35.4
GENERAL RESERVES	18	<u>112.9</u>	<u>110.8</u>	<u>113.6</u>	<u>111.4</u>
TOTAL FUNDS		<u>219.7</u>	<u>210.2</u>	<u>220.4</u>	<u>210.8</u>

The financial statements on pages 12 to 28 were approved by Council on 26 October 2004 and signed on its behalf by:

COLIN M CAMPBELL
Vice Chancellor

NAZIM A KARIMJEE
Treasurer and 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 2004

	Note	2004 £m	2003 £m
Net Cash Inflow from Operating Activities	22	4.8	27.9
Returns on Investments and Servicing of Finance	23	0.2	(1.1)
Capital Expenditure and Financial Investment	24	(9.6)	16.2
		<hr/>	<hr/>
Cash (Outflow)/Inflow before Use of Liquid Resources and Short-term Investments		(4.6)	43.0
Acquisitions and Disposals	25	(2.3)	(0.4)
Management of Liquid Resources		(1.0)	(6.1)
Financing	26	6.5	(24.6)
		<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH	27	<u>(1.4)</u>	<u>11.9</u>

Reconciliation of Net Cash Flow to Movement in Net Funds

	2004 £m	2003 £m
(Decrease)/Increase in Cash in the Period	(1.4)	11.9
Increase in Short Term Investments	1.0	6.1
Repayment of Debt	10.8	26.6
New Loans	(17.3)	(2.0)
Effect of foreign exchange	0.2	0.0
	<hr/>	<hr/>
CHANGE IN NET FUNDS	(6.7)	42.6
NET FUNDS AT 1 AUGUST	<u>(9.0)</u>	<u>(51.6)</u>
NET FUNDS AT 31 JULY	27 <u>(15.7)</u>	<u>(9.0)</u>

Notes to the Accounts

1. Funding Council Grants	HEFCE 2004 £m	TTA 2004 £m	Total 2004 £m	Total 2003 £m
Recurrent Grants	81.4	1.6	83.0	77.0
Specific Grants	7.3	0.7	8.0	6.0
Deferred Capital Grants Released in Year				
Buildings (Note 16)	0.9	0.0	0.9	0.7
Equipment (Note 16)	<u>0.3</u>	<u>0.0</u>	<u>0.3</u>	<u>0.2</u>
Total from Funding Councils	<u>89.9</u>	<u>2.3</u>	<u>92.2</u>	<u>83.9</u>

2. Academic Fees and Support Grants	2004 £m	2003 £m
Full-time credit bearing courses - home fees	22.1	19.9
Full-time credit bearing courses - international fees	37.0	30.9
Part-time credit bearing courses	2.3	2.4
Other teaching contracts	18.3	17.8
Non credit bearing courses and other fees	<u>5.7</u>	<u>4.1</u>
	<u>85.4</u>	<u>75.1</u>

3. Research Grants and Contracts	2004 £m	2003 £m
Research Councils	20.2	22.7
UK Based Charities	10.2	11.4
Other Grants and Contracts	27.9	29.0
Released from Deferred Capital Grants (Note 16)	<u>1.8</u>	<u>2.1</u>
	<u>60.1</u>	<u>65.2</u>

4. Other Operating Income	2004 £m	2003 £m
Residences, Catering and Conferences	30.9	30.6
Other Services Rendered	14.1	14.4
Health Authorities	6.0	5.4
Released from Deferred Capital Grants (Note 16)	0.4	0.2
Other Income	<u>13.0</u>	<u>10.2</u>
	<u>64.4</u>	<u>60.8</u>

Notes to the Accounts - *continued*

5. Endowment Income and Interest	2004	2003
	£m	£m
Transferred from Specific Endowments (Note 17)	0.5	0.3
Income from General Endowment Asset Investments (Note 17)	0.3	0.3
Other Interest Receivable	<u>0.6</u>	<u>0.7</u>
	<u><u>1.4</u></u>	<u><u>1.3</u></u>

6. Staff	2004	2003
	£m	£m
Staff Costs:		
Gross Pay	146.1	136.6
Social Security Costs	11.8	9.9
Other Pension Costs (Note 28)	<u>16.1</u>	<u>13.3</u>
	<u><u>174.0</u></u>	<u><u>159.8</u></u>

	2004	2003
	£000	£000
Emoluments of the Vice Chancellor	<u>181</u>	<u>167</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 £28,795 (2002/2003 - £26,934).

Compensation for loss of office paid to employees earning in excess of £70,000 per annum.	<u>0</u>	<u>38</u>
-------------------------------------------------------------------------------------------	----------	-----------

	Number	Number
Average Staff Numbers by Major Category:		
Teaching and Research	2,380	2,319
Technical	536	524
Administrative	1,436	1,403
Other, including Clerical and Manual	<u>898</u>	<u>902</u>
	<u><u>5,250</u></u>	<u><u>5,148</u></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	62	32
£80,000 - £89,999	20	21
£90,000 - £99,999	10	19
£100,000 - £109,999	18	9
£110,000 - £119,999	5	9
£120,000 - £129,999	12	6
£130,000 - £139,999	5	5
£140,000 - £149,999	5	0
£150,000 - £159,999	0	1
£180,000 - £189,999	2	0

Notes to the Accounts - *continued*

7. Other Operating Expenses

	2004 £m	2003 £m
Purchase, Hire and Repair of Equipment	13.7	14.2
Consumables and Laboratory Expenditure	12.9	12.1
Published Materials	4.0	3.4
Travel and Subsistence	7.2	6.7
Professional fees	11.6	11.2
Fellowships, Scholarships, Prizes and Other fees	23.8	20.5
Catering Supplies	5.1	5.0
Repairs and General Maintenance	11.5	11.6
Heat, Light, Water and Power	5.7	6.1
Rent, Rates and Insurance	7.3	6.2
Grants to University of Nottingham Students Union	1.1	0.9
Auditors' Remuneration	0.1	0.2
Training	1.0	1.0
Advertising	1.8	1.6
Impairment of investments	1.2	0.0
Other Expenses	11.7	13.7
	<u>119.7</u>	<u>114.4</u>

Auditors' Remuneration includes £53,100 in respect of audit services for the group of which £45,500 relates to the University. (The 2002/2003 expenditure was £51,500 and £44,000 respectively).

8. Interest Payable

	2004 £m	2003 £m
Loans not wholly repayable within five years	1.1	2.3
Finance Leases	0.1	0.1
	<u>1.2</u>	<u>2.4</u>

9. Analysis Of 2004 Expenditure By Activity

	Staff Costs £m	Dep'n £m	Other Operating Expenses £m	Interest Payable £m	Total £m
Academic Departments	101.1	1.4	31.1	0.0	133.6
Research Grants and Contracts	25.4	1.8	21.3	0.0	48.5
Total Teaching and Research	126.5	3.2	52.4	0.0	182.1
Academic Services	12.8	0.9	10.2	0.0	23.9
Administration	13.0	0.1	14.6	0.0	27.7
Premises	6.4	3.3	16.9	0.0	26.6
Residences, Catering and Conferences	8.6	0.5	16.1	0.9	26.1
Other Expenses	6.7	0.1	9.5	0.3	16.6
Total per Income and Expenditure Account	<u>174.0</u>	<u>8.1</u>	<u>119.7</u>	<u>1.2</u>	<u>303.0</u>

Notes to the Accounts - *continued*

10. Tangible Assets

	CONSOLIDATED					
	Land and Buildings		Equipment	Leased Equipment	Assets in Course of Construction	Total
	Freehold	Long Leasehold				
£m	£m	£m	£m	£m	£m	
Cost						
At 1 August 2003	188.4	14.7	34.4	6.0	25.7	269.2
Additions at Cost	10.3	0.5	3.3	0.0	16.0	30.1
Transfers	23.2	0.0	0.0	0.0	(23.2)	0.0
Disposals	<u>(0.4)</u>	<u>0.0</u>	<u>(3.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(4.2)</u>
At 31 July 2004	<u>221.5</u>	<u>15.2</u>	<u>33.9</u>	<u>6.0</u>	<u>18.5</u>	<u>295.1</u>
Depreciation						
At 1 August 2003	23.2	1.3	24.2	4.5	0.0	53.2
Charge for Year	3.1	0.3	4.5	0.2	0.0	8.1
Eliminated on Disposals	<u>0.0</u>	<u>0.0</u>	<u>(3.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(3.8)</u>
At 31 July 2004	<u>26.3</u>	<u>1.6</u>	<u>24.9</u>	<u>4.7</u>	<u>0.0</u>	<u>57.5</u>
Net Book Value						
At 31 July 2004	<u>195.2</u>	<u>13.6</u>	<u>9.0</u>	<u>1.3</u>	<u>18.5</u>	<u>237.6</u>
At 1 August 2003	<u>165.2</u>	<u>13.4</u>	<u>10.2</u>	<u>1.5</u>	<u>25.7</u>	<u>216.0</u>

	UNIVERSITY					
	Land and Buildings		Equipment	Leased Equipment	Assets in Course of Construction	Total
	Freehold	Long Leasehold				
£m	£m	£m	£m	£m	£m	
Cost						
At 1 August 2003	188.4	14.7	34.4	0.8	25.7	264.0
Additions at Cost	10.3	0.5	3.3	0.0	16.0	30.1
Transfers	23.2	0.0	0.0	0.0	(23.2)	0.0
Disposals	<u>(0.4)</u>	<u>0.0</u>	<u>(3.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(4.2)</u>
At 31 July 2004	<u>221.5</u>	<u>15.2</u>	<u>33.9</u>	<u>0.8</u>	<u>18.5</u>	<u>289.9</u>
Depreciation						
At 1 August 2003	23.2	1.3	24.2	0.8	0.0	49.5
Charge for Year	3.1	0.3	4.5	0.0	0.0	7.9
Eliminated on Disposals	<u>0.0</u>	<u>0.0</u>	<u>(3.8)</u>	<u>0.0</u>	<u>0.0</u>	<u>(3.8)</u>
At 31 July 2004	<u>26.3</u>	<u>1.6</u>	<u>24.9</u>	<u>0.8</u>	<u>0.0</u>	<u>53.6</u>
Net Book Value						
At 31 July 2004	<u>195.2</u>	<u>13.6</u>	<u>9.0</u>	<u>0.0</u>	<u>18.5</u>	<u>236.3</u>
At 1 August 2003	<u>165.2</u>	<u>13.4</u>	<u>10.2</u>	<u>0.0</u>	<u>25.7</u>	<u>214.5</u>

Notes to the Accounts - *continued*

11. Investments

	Consolidated		University	
	2004	2003	2004	2003
	£m	£m	£m	£m
Subsidiary Companies	0.0	0.0	0.4	0.4
Associated Companies	2.3	0.5	2.3	0.5
Investments	<u>0.6</u>	<u>1.5</u>	<u>0.6</u>	<u>1.5</u>
	<u>2.9</u>	<u>2.0</u>	<u>3.3</u>	<u>2.4</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 2003	0.5
Shares acquired in UNMC (Note 25)	2.3
Group's share of retained losses	(0.3)
Exchange movements	<u>(0.2)</u>
As at 31 July 2004	<u>2.3</u>

The University owns 28.9% of the ordinary share capital of the University of Nottingham Malaysia Campus (UNMC), a company incorporated in Malaysia. UNMC has a financial year end of 31 December in common with its majority shareholder. The University's total investment in UNMC is £3.7 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.

The University has made full provision of £1.0m against the cost of its investment in *Universitas 21* Global.

12. Endowment Asset Investments

	Consolidated and University 2004 £m
Balance at 1 August 2003	35.4
Additions	6.7
Disposals	(6.7)
Appreciation on Disposals/Revaluation	0.9
Increase in Cash Balances	<u>(2.2)</u>
Balance at 31 July 2004	<u>34.1</u>
Represented by:	
Equities	21.0
Land and Property	4.5
Cash Balances (Note 27)	<u>8.6</u>
	<u>34.1</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	
	2004 £m	2003 £m	2004 £m	2003 £m
Amounts falling due within one year:				
Debtors	19.6	21.5	18.4	20.3
Amounts due from Subsidiaries	0.0	0.0	9.5	7.8
Prepayments and accrued income	24.6	30.7	24.5	30.6
	<u>44.2</u>	<u>52.2</u>	<u>52.4</u>	<u>58.7</u>

14. Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2004 £m	2003 £m	2004 £m	2003 £m
Obligations under Finance Leases (Note 19)	0.2	0.2	0.0	0.0
HEFCE Loans	0.4	0.4	0.4	0.4
Payments Received in Advance	2.4	2.3	2.1	2.0
Creditors	6.8	7.9	6.5	7.4
Social Security and Other Taxation Payable	7.0	6.0	7.1	6.1
Amounts due to Subsidiaries	0.0	0.0	2.7	6.6
Accruals and Deferred Income	59.8	60.5	59.0	59.9
	<u>76.6</u>	<u>77.3</u>	<u>77.8</u>	<u>82.4</u>

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

	Consolidated		University	
	2004 £m	2003 £m	2004 £m	2003 £m
Loans from subsidiary companies	0.0	0.0	6.4	1.0
Secured loans	31.4	24.8	31.4	24.8
HEFCE loans	1.2	1.3	1.2	1.3
	32.6	26.1	39.0	27.1
Obligations under Finance Leases (Note 19)	1.6	1.9	0.0	0.0
	<u>34.2</u>	<u>28.0</u>	<u>39.0</u>	<u>27.1</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 31 July 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 Residences.

Notes to the Accounts - *continued*

16. Deferred Capital Grants

	Consolidated and University		
	Funding Council £m	Other Grants & Benefactions £m	Total £m
At 1 August 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>
Grants Received			
Buildings	8.3	2.8	11.1
Equipment	<u>(0.2)</u>	<u>1.0</u>	<u>0.8</u>
Total	<u>8.1</u>	<u>3.8</u>	<u>11.9</u>
Released to Income and Expenditure			
Buildings (Notes 1 and 4)	(0.8)	(0.3)	(1.1)
Equipment (Notes 1, 3 and 4)	<u>(0.3)</u>	<u>(1.8)</u>	<u>(2.1)</u>
Total	<u>(1.1)</u>	<u>(2.1)</u>	<u>(3.2)</u>
At 31 July 2004			
Buildings	49.4	19.7	69.1
Equipment	<u>0.9</u>	<u>2.7</u>	<u>3.6</u>
Total	<u>50.3</u>	<u>22.4</u>	<u>72.7</u>

17. Endowments

	Consolidated and University		
	Specific £m	General £m	Total £m
At 1 August 2003	20.4	15.0	35.4
Transferred to General Reserves	0.0	(2.0)	(2.0)
Reclassifications	0.0	(0.2)	(0.2)
Appreciation/(Depreciation) of Endowment Asset Investments	1.1	(0.2)	0.9
Income for Year	0.5	0.3	0.8
Transferred to Income and Expenditure Account	<u>(0.5)</u>	<u>(0.3)</u>	<u>(0.8)</u>
At 31 July 2004	<u>21.5</u>	<u>12.6</u>	<u>34.1</u>
Representing:			
Fellowships and Scholarships Funds	2.8	0.0	2.8
Prizes Funds	0.8	0.0	0.8
Chairs and Lectureships Funds	11.5	0.0	11.5
Other Funds	<u>6.4</u>	<u>12.6</u>	<u>19.0</u>
	<u>21.5</u>	<u>12.6</u>	<u>34.1</u>

Notes to the Accounts - *continued*

18. General Reserves

	Consolidated £m	University £m
Balance at 1 August 2003	110.8	111.4
Transfers from Surplus for the Year	0.2	0.2
Transfers from Endowment Reserves and Exchange movements	<u>1.9</u>	<u>2.0</u>
Balance at 31 July 2004	<u>112.9</u>	<u>113.6</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 £0.5m (2002 : £27.8m)

19. Lease Obligations

	Consolidated		University	
	2004 £m	2003 £m	2004 £m	2003 £m
Obligations under finance leases fall due as follows:				
Between two and five years	1.2	1.1	0.0	0.0
Over five years	<u>0.4</u>	<u>0.8</u>	<u>0.0</u>	<u>0.0</u>
Total over one year (Note 15)	1.6	1.9	0.0	0.0
Within one year (Note 14)	<u>0.2</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>
	<u>1.8</u>	<u>2.1</u>	<u>0.0</u>	<u>0.0</u>
Operating lease commitments in respect of land and buildings 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>0.3</u>	<u>0.1</u>	<u>0.3</u>	<u>0.1</u>
	<u>0.3</u>	<u>0.1</u>	<u>0.3</u>	<u>0.1</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>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>
	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>	<u>0.2</u>

20. Capital Commitments

	Consolidated		University	
	2004 £m	2003 £m	2004 £m	2003 £m
Commitments contracted at 31 July	<u>2.6</u>	<u>14.2</u>	<u>2.6</u>	<u>14.2</u>

21. Related party transactions

The University of Nottingham owns a 28.9% stake in the University of Nottingham Malaysia Campus (UNMC), which is accounted for as an associated entity (see note 11).

Certain academic members of staff are seconded to UNMC for periods of up to 3 years. The University has responsibility for the academic quality of UNMC, for which it receives a management fee. Certain costs incurred by both the University and UNMC are rechargeable to the other institution in accordance with a signed agreement. During the year net costs amounting to £232,000 (2003: £120,000) were recharged by the University to UNMC and £159,000 (2003: £133,000) was charged in relation to the management fee. At the year end UNMC owed the University £255,000 (2003: £278,000). Additional share capital of £2.3m (2003: £0.4m) 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

	2004 £m	2003 £m
Surplus for the Year	0.2	27.5
Depreciation (Note 10)	8.1	7.3
Loss/(Profit) on disposal of Fixed Assets	0.2	(0.4)
Impairment of investments	1.2	0.0
Surplus on disposal of Broadgate	(0.8)	(25.4)
Share of losses in associated company	0.3	0.3
Deferred Capital Grants Released to Income (Note 16)	(3.2)	(3.1)
Investment Income (Note 5)	(1.4)	(1.3)
Interest Payable	1.2	2.4
Net Income Retained in/(Released from) Specific Endowments (Increase) in Stocks	(0.2) (0.1)	0.0 0.0
(Increase)/Decrease in Debtors	(2.1)	11.4
Increase in Creditors	<u>1.4</u>	<u>9.2</u>
Net Cash Inflow from Operating Activities	<u><u>4.8</u></u>	<u><u>27.9</u></u>

23. Returns On Investments And Servicing Of Finance

	2004 £m	2003 £m
Income from Endowments	0.5	0.6
Other Interest Received	0.8	0.7
Interest Paid	<u>(1.1)</u>	<u>(2.4)</u>
Net Cash Outflow from Returns on Investments and Servicing of Finance	<u><u>0.2</u></u>	<u><u>(1.1)</u></u>

24. Capital Expenditure And Financial Investment

	2004 £m	2003 £m
Payments to Acquire Tangible Assets	(32.7)	(37.0)
Payments to Acquire Endowment Asset Investments (Note 12)	<u>(6.7)</u>	<u>(42.0)</u>
Total Payments to Acquire Fixed and Endowment Asset Investments	(39.4)	(79.0)
Receipts from Sales of Endowment Assets (Note 12)	6.7	49.1
Receipts from Sales of Fixed Assets	0.1	1.4
Receipts from Sale of Broadgate Park (Note 30)	11.1	25.6
Deferred Capital Grants Received (Note 16)	11.9	18.8
Endowments Received (Note 17)	<u>0.0</u>	<u>0.3</u>
Net Cash (Outflow)/Inflow from Investing Activities	<u><u>(9.6)</u></u>	<u><u>16.2</u></u>

Notes to the Accounts - *continued*

25. Acquisitions and Disposals

	2004 £m	2003 £m
Payments to Acquire Share Capital in Associate	<u>2.3</u>	<u>0.4</u>

26. Analysis Of Changes In Consolidated Financing During The Year

	Total £m	Finance Leases £m	Mortgages and Loans £m
Balances at 1 August 2003	<u>28.6</u>	<u>2.1</u>	<u>26.5</u>
New Leases/Loans	17.3	0.0	17.3
Capital Repayments	(10.8)	(0.2)	(10.6)
Foreign exchange translation differences	<u>(0.2)</u>	<u>0.0</u>	<u>(0.2)</u>
Net Amount Received/(Repaid) in Year	<u>6.3</u>	<u>(0.2)</u>	<u>6.5</u>
Balances at 31 July 2004	<u>34.9</u>	<u>1.9</u>	<u>33.0</u>

27. Analysis Of Changes In Net Funds

	At 1 August 2003 £m	Cash Flows £m	Other Changes £m	At 31 July 2004 £m
Cash				
Endowment Asset Investments (Note 12)	10.9	(2.2)	(0.1)	8.6
Cash at Bank and in hand/Bank Overdraft	<u>1.9</u>	<u>0.8</u>	<u>0.0</u>	<u>2.7</u>
	12.8	(1.4)	(0.1)	11.3
Short Term Investments	6.8	1.0	0.0	7.8
Debt due within one year	(0.6)	0.0	0.0	(0.6)
Debt due after one year	<u>(28.0)</u>	<u>(6.4)</u>	<u>0.2</u>	<u>(34.2)</u>
	<u>(9.0)</u>	<u>(6.8)</u>	<u>0.1</u>	<u>(15.7)</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 Second Pension (S2P). 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. To fund this reduction of 0.25% for a period of 12 years from the date the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward.

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 pension scheme in the UK. A full actuarial valuation was carried out at 1 August 2002. The results of that valuation have been projected to 31 July 2004 and then recalculated based on the following assumptions:

	At 31/07/2004	At 31/07/2003	At 31/07/2002
Rate of increase in salaries	4.00%	3.50%	3.50%
Increases for pensions in payment post 2003	2.80%	2.50%	N/A
Increases for pensions in payment pre 2003	3.00%	3.00%	3.00%
Liability discount rate	6.00%	5.50%	6.25%
Inflation assumption	3.00%	2.50%	2.50%
Revaluation of deferred pensions	3.00%	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 2004 %	Value at 31 July 2004 £m	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	7.25%	40.5	6.50%	37.5	7.00%	34.0
Bonds	5.25%	12.7	4.50%	10.5	5.00%	11.6
Property	7.25%	2.6	6.50%	2.4	7.00%	1.1
Cash	5.00%	2.1	4.50%	1.0	5.00%	1.2
Total market value of assets		57.9		51.4		47.9
Present value of scheme liabilities		<u>(86.1)</u>		<u>(81.0)</u>		<u>(59.1)</u>
(Deficit)/Surplus in the scheme		<u>(28.2)</u>		<u>(29.6)</u>		<u>(11.2)</u>
Revised net assets incorporating net pension (liability)/asset		<u>191.5</u>		<u>180.6</u>		<u>154.9</u>

Analysis of the amount that would be charged to operating profit

	2004 £m	2003 £m
Current service cost	(3.1)	(3.1)
Past service cost	0.0	0.0
Loss / (Gain) on curtailment	0.0	0.0
Loss / (Gain) on settlement	<u>0.0</u>	<u>0.0</u>
Total operating charge	<u>(3.1)</u>	<u>(3.1)</u>

Analysis of the amount that would be credited to other finance income

	2004 £m	2003 £m
Expected return on pension scheme assets	3.2	3.1
Interest on pension scheme liabilities	<u>(4.5)</u>	<u>(3.8)</u>
Net return	<u>(1.3)</u>	<u>(0.7)</u>

Analysis of amount that would be recognised in statement of total recognised gains and losses (STRGL):

	2004 £m	2003 £m
Actual return less expected return on pension scheme assets	0.8	(0.3)
Experience gains and losses arising on the scheme liabilities	0.0	(4.5)
Changes in assumptions underlying the present value of the scheme liabilities	<u>1.7</u>	<u>(11.3)</u>
Actuarial gain recognised in STRGL	<u>2.5</u>	<u>(16.1)</u>

Notes to the Accounts - *continued*

28. Pension Schemes — continued

Movement in Deficit during the Year:

	2004 £m	2003 £m
Deficit in scheme at start of year	(29.6)	(11.2)
Movement in year:		
Current service cost	(3.1)	(3.1)
Contributions	3.3	1.5
Past service costs	0.0	0.0
Other finance incom	(1.3)	(0.7)
Actuarial gain/(loss)	<u>2.5</u>	<u>(16.1)</u>
Deficit in scheme at year end	<u>(28.2)</u>	<u>(29.6)</u>

Following the full actuarial valuation at 1 August 2002 employer contributions have been agreed at the rate of 13.40 per cent of pensionable pay. Active members pay on at the rate of 5.00 per cent of pensionable pay.

History of Experience Gains and Losses

	2004	2003	2002
Difference between the Expected and Actual Return on Scheme Assets:			
Amount (£m)	0.8	(0.3)	(12.0)
Percentage of the scheme assets	1%	(1%)	(25%)

Experience Gains and Losses on Scheme Liabilities:

Amount (£m)	0.0	(4.5)	0.0
Percentage of the present value of the scheme liabilities	0%	(6%)	0%

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

amount (£m)	2.5	(16.2)	(10.9)
percentage of the present value of the scheme liabilities	3%	(20%)	(18%)

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

	2004 £m	2003 £m
Contributions to USS	12.1	11.3
Contributions to CPAS	3.4	1.5
Contributions to Other Pension Schemes	<u>0.6</u>	<u>0.5</u>
Total Pensions Cost (Note 6)	<u>16.1</u>	<u>13.3</u>

Notes to the Accounts - *continued*

29. 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.

	2004 £000	2003 £000
Balance at 1 August	0.2	0.2
Funding Council Grants	0.5	0.4
Interest Earned	<u>0.0</u>	<u>0.0</u>
	0.7	0.6
Disbursed to Students	<u>(0.6)</u>	<u>(0.4)</u>
Balance Unspent at 31 July	<u><u>0.1</u></u>	<u><u>0.2</u></u>



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