

Financial Statements



The University of Nottingham
for the year ended 31 July 2005

The Council

As at 31 July 2005

President:

K Hamill

Vice-President: M McNamara

Members ex-Officio

The Chancellor: Professor Fujia Yang
The Pro-Chancellor: J Forman Hardy
The Vice-Chancellor: Professor Sir Colin Campbell*
The Treasurer: N A Karimjee
The Pro-Vice-Chancellors: Professor D J Birch*
Professor P A Gillies*
Professor I T M Gow*
Professor D Greenaway*
Professor D Grierson OBE*
Professor H F Sewell*
Professor D G Tallack*

* University Employee

Lay Members Appointed by the Council

A Colquhoun
D Garnham
A Greenwood
I Lindsey OBE
Sir Robert Phillis
N Puri
M L Rossi
Professor S Russell
M Suthers OBE
A Wilkinson

Academic Members Appointed by the Senate

Dr M L Clarke
Dr J Colls
Dr C Hall
Dr E Lester
Dr K C Lowe
Professor D S Riley

Lay Members Appointed by The University Association

Professor B R Clayton
M S Curry

Appointed by the Union of Students

R Taylor
J Spong

Senior Officers:

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

Financial Statements for the year to 31 July 2005

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A message from The Vice-Chancellor

Nottingham significantly broadened its horizons in 2005. It stayed at the forefront of developments, at home and abroad. Student numbers, including the new campuses in China and Malaysia, exceeded 30,000. Nottingham set new standards in both fundamental and applied research, and adopted an innovative and successful approach to the challenges of widening access to higher education, and to working with local communities.

Exciting new research projects developed. Clinicians and scientists forged new partnerships in cancer research, and collaborative work strengthened in food sciences and, in the Humanities area, in understanding the way the environment influences society. A strong foundation for success in the next assessment exercise has been established. Nottingham also continued to develop the spin-out companies that contribute so much to the UK economy, developing marketable ideas and effectively transferring medical science from bench to bedside.

The University played a major role in the campaign to allow UK universities to charge higher tuition fees, with colleagues recognising an opportunity to bring about fundamental changes in attitudes to higher education. We argued, with success, that higher fees, far from depriving students from less wealthy backgrounds, actually offered a once-in-a-lifetime opportunity to emancipate a group of young people hitherto largely excluded from universities.

Nottingham was perhaps the first UK university to propose to government that a significant proportion of additional income from higher fees should be used to create a new, imaginative, system of grants and bursaries. This will tackle the access problem once and for all. We can take pride in the fact that, through our influence on the issue of fees and bursaries, we have helped to remove one of the greatest social injustices of the last half-century - the exclusion of able young people from higher education.

Internationally, Nottingham can be proud of the part it has played in helping to develop the higher education system of China - the world's fastest-growing economy. Our Malaysia campus is helping that country achieve its aim of becoming an Asian regional centre of excellence for university provision.

To sustain its ambition to be a world leader, Nottingham must build on a reputation for excellence forged in the increasingly competitive arena of UK higher education. Firm roots at home give us the strength to expand abroad. Our aspirations spring from a desire to involve, educate and inspire - equally valid in Ningbo, China, Kuala Lumpur, Malaysia, Lenton and Dunkirk in Nottingham.

Professor Sir Colin Campbell

Financial Highlights

Consolidated Income and Expenditure Account

	2005 £ million	2004 £ million	Change %
Funding Council Grants	99.2	92.2	7.6
Academic Fees and Support Grants	92.2	85.4	8.0
Research Grants and Contracts	62.3	60.1	3.7
Other Operating Income	65.3	64.4	1.4
Endowment Income and Interest	1.3	1.4	
TOTAL INCOME	320.3	303.5	5.5
(DEFICIT)/SURPLUS FOR THE YEAR	(6.1)	0.5	
Share of losses in associated companies	(0.6)	(0.3)	
Surpluses on disposal of property	1.3	0.0	
NET (DEFICIT)/SURPLUS FOR THE YEAR	(5.4)	0.2	
TOTAL NET ASSETS	240.6	219.7	

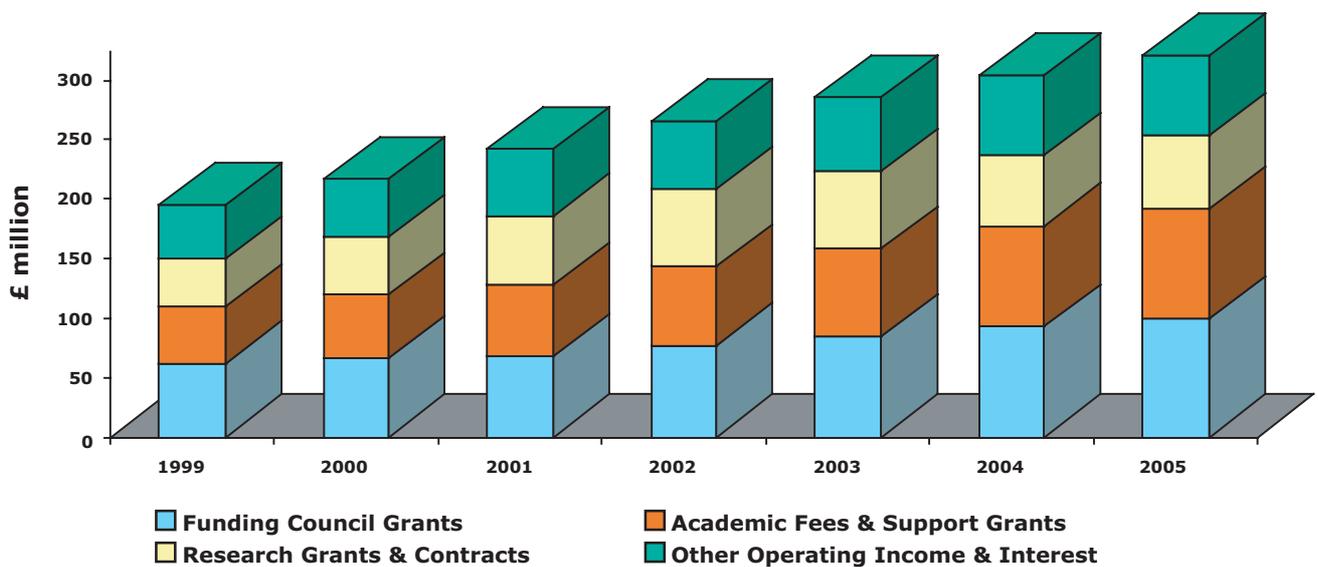
Treasurer's Report

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.

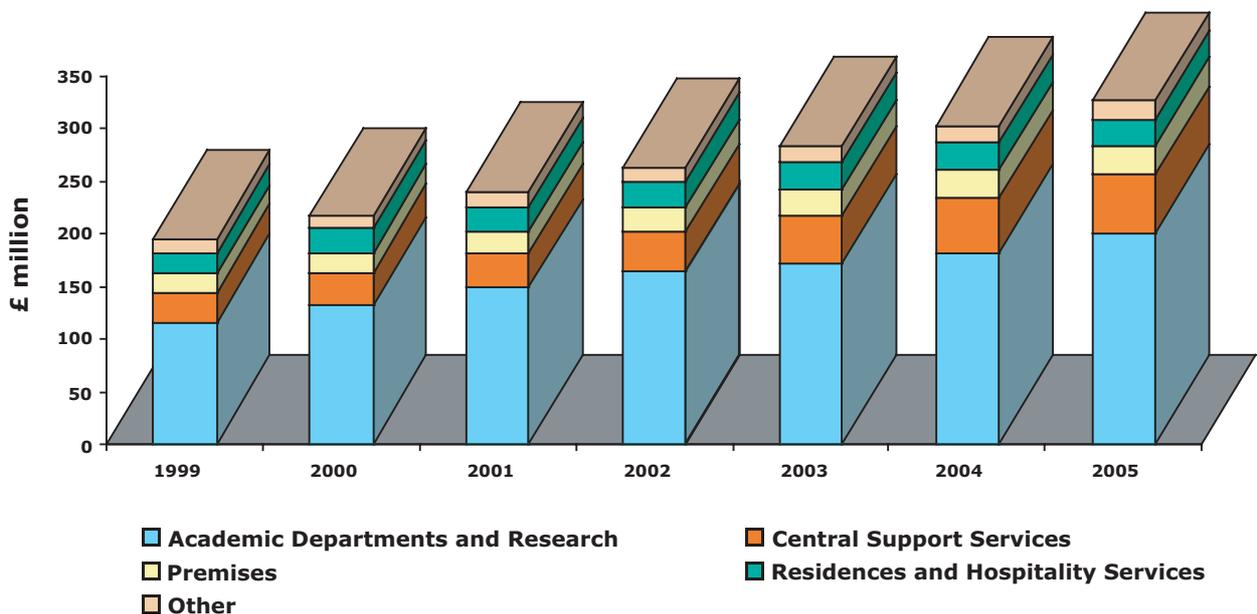
INCOME ANALYSIS

Growth in income has been consistent across all categories over the last nine years, nearly doubling to over £320 million and will continue to grow.



EXPENDITURE ANALYSIS

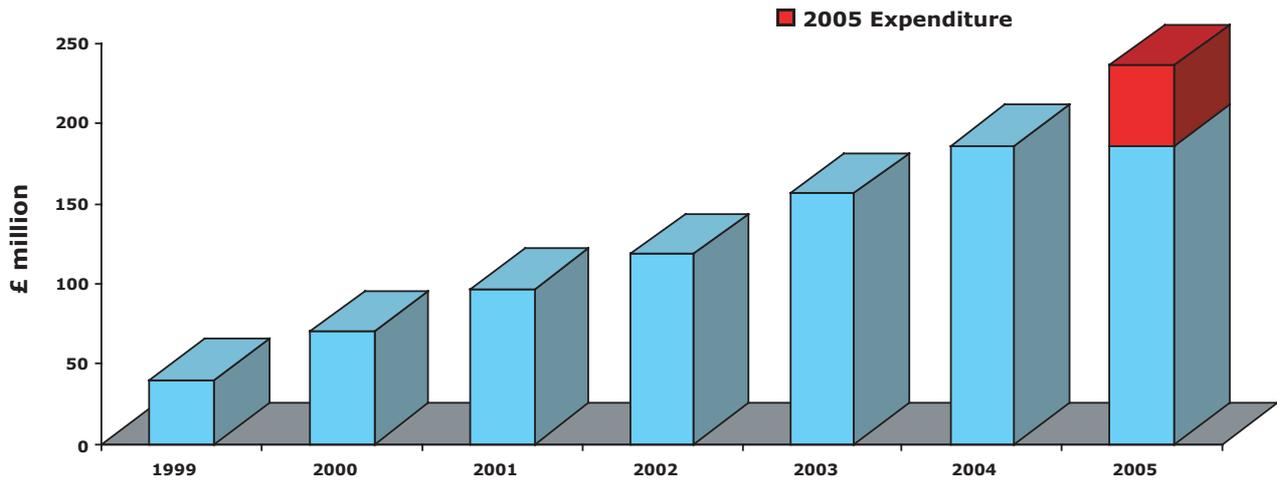
Academic departments and Research represent over 60% of the Universities expenditure, growth in these costs underpin the growth in income.



Treasurer's Report – continued

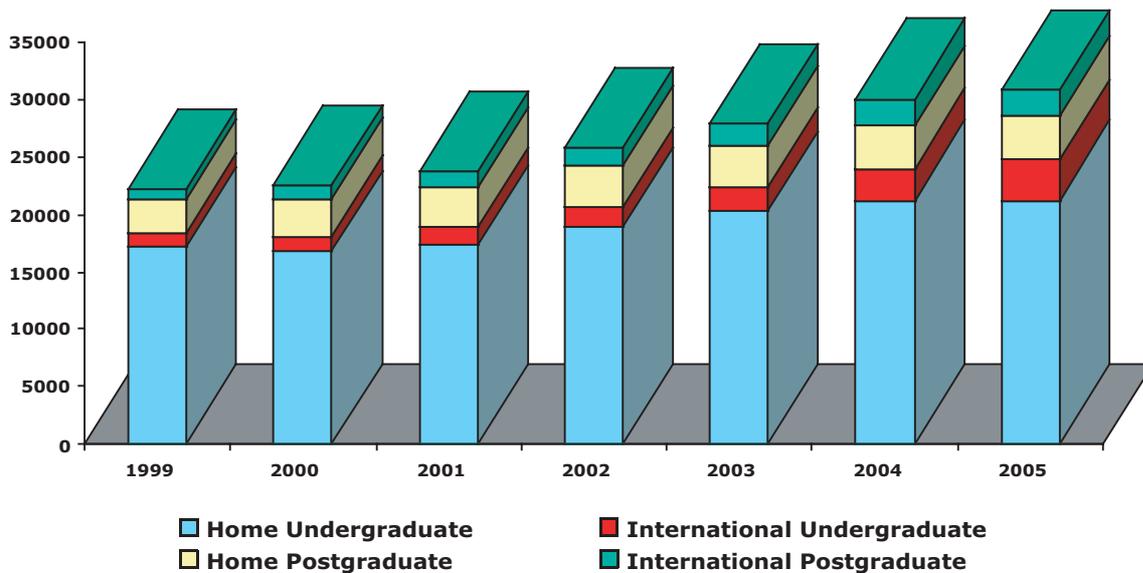
CUMULATIVE CAPITAL EXPENDITURE

The University has invested consistently in its teaching and research infrastructure and student facilities, averaging £35 million per annum. The largest cost in the year being the acquisition of the King's Meadow campus.



STUDENT ANALYSIS

Student growth reflects the investment in the core infrastructure both at the campuses in the UK and overseas in Malaysia and China. Total student numbers now exceed 30,000.



Treasurer's Report – *continued*

Business Review

The University's income increased by 6% to £320 million. Expenditure increased by 8% to £326 million, with the increase in staff costs being 7% to £186 million.

The overall result was a deficit of £5.4 million compared to £0.2m surplus last year. The operating deficit arises from continued revenue investment into high quality academic and research staff and the related infrastructure, following the sale of property in 2003. The University Plan acknowledges the need for revenue deficits before surpluses are achieved again. The results this year include the University's share of start-up costs at the new campuses in both China and Malaysia.

The University invested over £50 million in its infrastructure and estate, including the acquisition of the old Carlton television studios, close to the existing campuses in Nottingham. The new King's Meadow Campus will provide accommodation for a number of key central support departments as well as an income source via external letting of space. Other major capital projects include a new sports centre, adjacent to the Jubilee campus, commencement of work on the Veterinary School at Sutton Bonington and phase 2 of the Biomolecular Sciences research building at University Park and continued work on projects funded by the Science Research Investment Fund. This was funded by £17 million of capital grants, £25 million increase in the loans, with the balance from working capital.

At the 31 July the University had long term loans of £56 million off-set by £11 million of cash and short-term deposits.

The University has an agreed facility to borrow up to £85 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 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.

Compliance

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

Conclusion

The University continues to invest for the future both in terms of staff and infrastructure and its overall financial strength allows it to report a deficit without this impacting the longer-term strategy of the University. These investments place the University in a strong position to achieve its goals and objectives.

Nazim Karimjee,
Treasurer
1 November 2005

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 University is committed to best practice in corporate governance. The Council notes the Combined Code on Corporate Governance and the HEFCE Accounts Direction requirements. In addition the University has had regard to the Governance Code of Practice and General Principles (the Code) published by the Committee of University Chairmen, last year. In response to the Code and in accordance with overall good governance the Council established a working group to review the role of Council and its effectiveness. Council was satisfied that the governance arrangements reviewed by the Working Group were well aligned with the Code and there were no significant omissions.

In order to comply with the Code the Council approved its Statement of Primary Responsibility as follows:

"This Statement has been drawn up taking account of the best practice guidance of the CUC General Principles of Governance.

It reflects the primary provisions of the University's Charter and the formal powers of the Council contained in Statutes Section 20.

The Council is the governing body of the institution and in exercising its role and powers, undertakes to meet the obligations placed upon the institution by the founding Charter of the University. This establishes the University as both a teaching and examining body providing education in various branches of learning as determined by the institution and as a body making provision for research and dissemination of knowledge. The Council has the responsibility for the conduct of all the affairs of the University and in so doing upholds the principle that access to the University shall be open to all persons regardless of gender, belief or origin.

The University's aspirations are expressed in the statement of aims and objectives contained in the institutional plan and the Council, in approving it, remains mindful of the requirements of the Charter.

The following provisions contain the primary functions and responsibilities of the Council, reflecting the overarching requirements of the Charter.

- To approve the strategic plan of the University including long term academic and business plans.
- To be the principal financial authority of the institution and to ensure that accounts are maintained.
- To exercise overall responsibility for the University's assets and properties. To act as trustee for any bequest, endowment or gift or similar made to further aims of the University.
- To appoint the head of the institution who will act as Chief Executive in all academic and management matters.
- To enter into contracts and legal commitments exercising the legal authority of the institution including contracts of employment with staff.
- To receive indicators of institutional performance against approved plans.
- To ensure that control, monitoring and assurance systems are in place and reviewed from time to time.
- To act at all times in the best interests of the institution and to maintain high standards of conduct in accordance with relevant codes, acting at all time in accordance with the constitutional provisions contained in the University's Charter and Statutes.
- To undertake reviews of its performance as governing body from time to time through such mechanisms as are appropriate."

The Council of the University comprises up to 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 Committee, which comprises 20 members of which 10 are lay members and 1 the Students' Union President, inter alia recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Committee also reviews major investment decisions prior to final approval by Council.

Governance – *continued*

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 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 Board, comprising the Vice-Chancellor, 6 Pro- Vice-Chancellors, the Chief Financial Officer and the Registrar. Management Board 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 Board 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.

As noted above the University Council comprises of more members than the maximum number of 25 recommended in the Code. Council noted that at this juncture a small reduction in the size of Council would not make any significant difference and that a major change would be difficult to implement at this stage, but the size of the Council would continue to be considered in light of any further advice or changes.

Statement of Internal Control

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

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

- Council meets 5 times a year to consider the plans and strategic direction for the institution. It is advised by its key Committees, noted above.
- The Audit Committee has been requested to provide oversight of risk management. This provides a formalised reporting and appraisal mechanism in addition to management reports noted above.
- The Audit Committee receives regular reports from the Head of Internal Audit, together with recommendations for improvement. This includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the institution's systems of risk management, internal control and governance.

Governance – *continued*

- 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 and monthly management accounts are presented at each Finance Committee.
- The annual budget, forward estimates and major investment proposals are approved by both Finance Committee and Council, following detailed review, challenge and assessment by the University's Management Board.

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

Preparation of the Financial Statements

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

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

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

The Council has taken reasonable steps to:

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

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

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

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

Independent Auditors' Report to the Council of The University of Nottingham

We have audited the financial statements of The University of Nottingham for the year ended 31 July 2005 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the University balance sheet, the consolidated cash flow statement, the statement of consolidated total recognised gains and losses, the reconciliation of net cash to movement in net debt, the statement of principal accounting policies and the related notes 1 to 31.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated December 2003. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council as a body, for our audit work, for this report, or for opinions we have formed.

Respective responsibilities of the Members of the Council and the Auditors

As described in the Responsibilities of the Council, the Members of the Council are responsible for the preparation of financial statements in accordance with University's statute, applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established by statute, the Audit Practices Board, the Higher Education Funding Council for England and by our profession's ethical guidance.

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 in Accounting for Further and Higher Education. We also report whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by The University of Nottingham have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the 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 Treasurer's Report is not consistent with the financial statements, if 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 report of the Treasurer's Report, including the corporate governance statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom 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 judgments made by the University Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of The University of Nottingham and its subsidiary companies, consistently 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 as to whether the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the University and the group as at 31 July 2005 and of the group's deficit of expenditure over income and cash flow for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice in Accounting for Further and Higher Education Institutions.
- 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; and
- in all material respects, income has been applied in accordance with the University's statutes and where appropriate with the Financial Memorandum dated December 2003 with the Higher Education Funding Council for England.

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors

4 November 2005

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, where terms require 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.

Assets in the Course of Construction are not depreciated

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. Investment Properties

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

10. 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.

11. 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.

12. Liquid Resources

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

13. 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.

14. 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 2005

	Note	2005 £m	2004 £m
INCOME			
Funding Council Grants	1	99.2	92.2
Academic Fees and Support Grants	2	92.2	85.4
Research Grants and Contracts	3	62.3	60.1
Other Operating Income	4	65.3	64.4
Endowment Income and Interest	5	1.3	1.4
Total Income		<u>320.3</u>	<u>303.5</u>
EXPENDITURE			
Staff Costs	6	186.1	174.0
Depreciation	10	8.4	8.1
Other Operating Expenses	7	129.8	119.7
Interest	8	2.1	1.2
Total Expenditure	9	<u>326.4</u>	<u>303.0</u>
(Deficit)/Surplus for the Year		(6.1)	0.5
Share of losses in associated companies	11	(0.6)	(0.3)
Surplus on disposal of property		1.3	0.0
NET (DEFICIT)/SURPLUS FOR YEAR	19	<u>(5.4)</u>	<u>0.2</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 2005

	Note	2005 £m	2004 £m
Net (Deficit)/Surplus for year	19	(5.4)	0.2
Additional equity in University of Nottingham, China	11	4.4	0.0
Appreciation of Endowment Asset Investments	17	4.4	0.9
Transfer from Endowments	17	0.0	(0.2)
Unrealised surplus on revaluation of Investment Properties	18	0.8	0.0
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>4.2</u>	<u>0.9</u>

Balance Sheet

As at 31 July 2005

	Note	Consolidated		University	
		2005 £m	2004 £m	2005 £m	2004 £m
FIXED ASSETS					
Tangible Assets	10	278.8	237.6	277.7	236.3
Investments	11	<u>10.9</u>	<u>2.9</u>	<u>7.5</u>	<u>3.3</u>
		289.7	240.5	285.2	239.6
INVESTMENT PROPERTIES	12	5.3	0.0	5.3	0.0
ENDOWMENT ASSET INVESTMENTS	12	<u>27.6</u>	<u>34.1</u>	<u>27.6</u>	<u>34.1</u>
CURRENT ASSETS					
Stocks		1.2	1.2	1.1	1.1
Debtors	13	53.0	44.2	54.0	52.4
Short Term Investments		8.1	7.8	7.6	7.4
Cash at Bank and in Hand		<u>2.9</u>	<u>2.7</u>	<u>2.8</u>	<u>2.6</u>
		65.2	55.9	65.5	63.5
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	14	<u>(88.5)</u>	<u>(76.6)</u>	<u>(88.9)</u>	<u>(77.8)</u>
NET CURRENT LIABILITIES		<u>(23.3)</u>	<u>(20.7)</u>	<u>(23.4)</u>	<u>(14.3)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		299.3	253.9	294.7	259.4
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	15	<u>(58.7)</u>	<u>(34.2)</u>	<u>(57.3)</u>	<u>(39.0)</u>
TOTAL NET ASSETS		<u>240.6</u>	<u>219.7</u>	<u>237.4</u>	<u>220.4</u>
DEFERRED CAPITAL GRANTS	16	<u>89.4</u>	<u>72.7</u>	<u>89.4</u>	<u>72.7</u>
ENDOWMENTS					
Specific	17	25.6	21.5	25.6	21.5
General	17	<u>2.0</u>	<u>12.6</u>	<u>2.0</u>	<u>12.6</u>
		27.6	34.1	27.6	34.1
RESERVES					
Revaluation	18	5.1	0.0	5.1	0.0
General	19	<u>118.5</u>	<u>112.9</u>	<u>115.3</u>	<u>113.6</u>
		123.6	112.9	120.4	113.6
TOTAL FUNDS		<u>240.6</u>	<u>219.7</u>	<u>237.4</u>	<u>220.4</u>

The financial statements on pages 12 to 28 were approved by Council on 1 November 2005 and signed on its behalf by:

PROFESSOR SIR COLIN M CAMPBELL
Vice Chancellor

NAZIM A KARIMJEE
Treasurer and Chairman of Finance
Committee

DAVID A BEEBY
Chief Financial Officer

MARTIN WYNNE-JONES
Director of Finance

Consolidated Cash Flow Statement

For the Year Ended 31 July 2005

	Note	2005 £m	2004 £m
Net Cash Inflow from Operating Activities	23	1.5	4.8
Returns on Investments and Servicing of Finance	24	(0.7)	0.2
Capital Expenditure and Financial Investment	25	(31.0)	(9.6)
		<hr/>	<hr/>
Cash Outflow before Use of Liquid Resources and Short-term Investments		(30.2)	(4.6)
Acquisitions and Disposals	26	(2.0)	(2.3)
Management of Liquid Resources		(0.3)	(1.0)
Financing	27	26.3	6.5
		<hr/>	<hr/>
DECREASE IN CASH	28	<u>(6.2)</u>	<u>(1.4)</u>

Reconciliation Of Net Cash Flow To Movement In Net Debt

	Note	2005 £m	2004 £m
Decrease in Cash in the Period		(6.2)	(1.4)
Increase in Short Term Investments		0.3	1.0
Repayment of Debt		6.2	10.8
New Loans		(32.5)	(17.3)
Change in net debt resulting from cash flows		(32.2)	(6.9)
Effect of foreign exchange		(0.2)	(0.2)
		<hr/>	<hr/>
CHANGE IN NET DEBT		(32.4)	(6.7)
NET DEBT AT 1 AUGUST		<u>(15.7)</u>	<u>(9.0)</u>
		<hr/>	<hr/>
NET DEBT AT 31 JULY	28	<u>(48.1)</u>	<u>(15.7)</u>

Notes to the Accounts

1. Funding Council Grants	HEFCE 2005 £m	TTA 2005 £m	Total 2005 £m	Total 2004 £m
Recurrent Grants	90.1	1.9	92.0	83.0
Specific Grants	4.5	1.1	5.6	8.0
Deferred Capital Grants Released in Year				
Buildings (Note 16)	1.1	0.0	1.1	0.9
Equipment (Note 16)	0.5	0.0	0.5	0.3
Total from Funding Councils	<u>96.2</u>	<u>3.0</u>	<u>99.2</u>	<u>92.2</u>
2. Academic Fees and Support Grants			2005 £m	2004 £m
Full-time credit bearing courses - home fees			22.7	22.1
Full-time credit bearing courses - international fees			40.5	37.0
Part-time credit bearing courses			2.4	2.3
Other teaching contracts			19.6	18.3
Non credit bearing courses and other fees			7.0	5.7
			<u>92.2</u>	<u>85.4</u>
3. Research Grants and Contracts			2005 £m	2004 £m
Research Councils			22.5	20.2
UK Based Charities			9.2	10.2
Other Grants and Contracts			29.2	27.9
Released from Deferred Capital Grants (Note 16)			1.4	1.8
			<u>62.3</u>	<u>60.1</u>
4. Other Operating Income			2005 £m	2004 £m
Residences, Catering and Conferences			29.5	30.9
Other Services Rendered			15.4	14.1
Health Authorities			6.0	6.0
Released from Deferred Capital Grants (Note 16)			0.3	0.4
Other Income			14.1	13.0
			<u>65.3</u>	<u>64.4</u>

Notes to the Accounts - *continued*

5. Endowment Income and Interest

	2005 £m	2004 £m
Transferred from Specific Endowments (Note 17)	0.4	0.5
Income from General Endowment Asset Investments (Note 17)	0.4	0.3
Other Interest Receivable	0.5	0.6
	<u>1.3</u>	<u>1.4</u>

6. Staff

	2005 £m	2004 £m
Staff Costs:		
Gross Pay	155.6	146.1
Social Security Costs	12.7	11.8
Other Pension Costs (Note 30)	17.8	16.1
	<u>186.1</u>	<u>174.0</u>

	2005 £000	2004 £000
Emoluments of the Vice Chancellor	<u>221</u>	<u>181</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 £34,416 (2004 - £28,795).

Compensation for loss of office paid to employees earning in excess of £70,000 per annum.	<u>86</u>	<u>0</u>
	Number	Number

Average Staff Numbers by Major Category:		
Teaching and Research	2,490	2,380
Technical	524	536
Administrative	1,657	1,436
Other, including Clerical and Manual	866	898
	<u>5,537</u>	<u>5,250</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	57	62
£80,000 - £89,999	13	20
£90,000 - £99,999	18	10
£100,000 - £109,999	11	18
£110,000 - £119,999	14	5
£120,000 - £129,999	15	12
£130,000 - £139,999	7	5
£140,000 - £149,999	7	5
£150,000 - £159,999	7	0
£160,000 - £169,999	5	0
£170,000 - £179,999	5	0
£180,000 - £189,999	7	2
£190,000 - £199,999	3	0
£200,000 - £209,999	1	0
£230,000 - £239,000	1	0

Notes to the Accounts - *continued*

7. Other Operating Expenses

	2005 £m	2004 £m
Purchase, Hire and Repair of Equipment	14.0	13.7
Consumables and Laboratory Expenditure	13.5	12.9
Published Materials	4.0	4.0
Travel and Subsistence	8.1	7.2
Professional and Other Fees	21.4	17.9
Fellowships, Scholarships and Prizes	19.4	17.4
Catering Supplies	5.0	5.1
Repairs and General Maintenance	12.2	11.5
Heat, Light, Water and Power	6.6	5.7
Rent, Rates and Insurance	5.2	7.3
Grants to University of Nottingham Students Union	1.2	1.1
Auditors' Remuneration	0.1	0.1
Training	1.7	1.0
Advertising	2.1	1.8
Impairment of investments	1.0	1.2
Other Expenses	14.3	11.7
	<u>129.8</u>	<u>119.7</u>

Auditors' Remuneration includes £62,500 in respect of audit services for the group, of which £55,200 relates to the University and £18,000 in respect of non audit services. (The 2004 expenditure was £53,100, £45,500 and £78,000 respectively).

8. Interest Payable

	2005 £m	2004 £m
Loans not wholly repayable within five years	2.0	1.1
Finance Leases	0.1	0.1
	<u>2.1</u>	<u>1.2</u>

9. Analysis of 2005 Expenditure By Activity

	Staff Costs £m	Dep'n £m	Other Operating Expenses £m	Interest Payable £m	Total £m
Academic Departments	111.4	1.3	36.9	0.0	149.6
Research Grants and Contracts	26.0	1.4	23.1	0.0	50.5
Total Teaching and Research	137.4	2.7	60.0	0.0	200.1
Academic Services	12.9	1.2	10.1	0.0	24.2
Administration	15.1	0.0	16.9	0.0	32.0
Premises	6.3	3.9	17.3	0.0	27.5
Residences, Catering and Conferences	8.4	0.5	14.9	1.0	24.8
Other Expenses	6.0	0.1	10.6	1.1	17.8
Total per Income and Expenditure Account	<u>186.1</u>	<u>8.4</u>	<u>129.8</u>	<u>2.1</u>	<u>326.4</u>

Notes to the Accounts - *continued*

10. Tangible Assets

CONSOLIDATED

	Land and Buildings			Leased Equipment £m	Assets in Course of Construction £m	Total £m
	Freehold £m	Long Leasehold £m	Equipment £m			
Cost						
At 1 August 2004	221.5	15.2	33.9	6.0	18.5	295.1
Additions at Cost	23.1	0.0	12.1	0.0	15.1	50.3
Transfers	16.6	0.0	0.5	0.0	(17.1)	0.0
Disposals	(0.9)	0.0	(4.5)	0.0	0.0	(5.4)
At 31 July 2005	<u>260.3</u>	<u>15.2</u>	<u>42.0</u>	<u>6.0</u>	<u>16.5</u>	<u>340.0</u>
Depreciation						
At 1 August 2004	26.3	1.6	24.9	4.7	0.0	57.5
Charge for Year	3.7	0.1	4.4	0.2	0.0	8.4
Eliminated on Disposals	(0.2)	0.0	(4.5)	0.0	0.0	(4.7)
At 31 July 2005	<u>29.8</u>	<u>1.7</u>	<u>24.8</u>	<u>4.9</u>	<u>0.0</u>	<u>61.2</u>
Net Book Value						
At 31 July 2005	<u>230.5</u>	<u>13.5</u>	<u>17.2</u>	<u>1.1</u>	<u>16.5</u>	<u>278.8</u>
At 1 August 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>

UNIVERSITY

	Land and Buildings			Leased Equipment £m	Assets in Course of Construction £m	Total £m
	Freehold £m	Long Leasehold £m	Equipment £m			
Cost						
At 1 August 2004	221.5	15.2	33.9	0.8	18.5	289.9
Additions at Cost	23.1	0.0	12.1	0.0	15.1	50.3
Transfers	16.6	0.0	0.5	0.0	(17.1)	0.0
Disposals	(0.9)	0.0	(4.5)	0.0	0.0	(5.4)
At 31 July 2005	<u>260.3</u>	<u>15.2</u>	<u>42.0</u>	<u>0.8</u>	<u>16.5</u>	<u>334.8</u>
Depreciation						
At 1 August 2004	26.3	1.6	24.9	0.8	0.0	53.6
Charge for Year	3.7	0.1	4.4	0.0	0.0	8.2
Eliminated on Disposals	(0.2)	0.0	(4.5)	0.0	0.0	(4.7)
At 31 July 2005	<u>29.8</u>	<u>1.7</u>	<u>24.8</u>	<u>0.8</u>	<u>0.0</u>	<u>57.1</u>
Net Book Value						
At 31 July 2005	<u>230.5</u>	<u>13.5</u>	<u>17.2</u>	<u>0.0</u>	<u>16.5</u>	<u>277.7</u>
At 1 August 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>

Notes to the Accounts - *continued*

11. Investments

	Consolidated		University	
	2005	2004	2005	2004
	£m	£m	£m	£m
Subsidiary Company	0.0	0.0	0.4	0.4
Associated Companies	10.3	2.3	3.1	2.3
Investments	<u>0.6</u>	<u>0.6</u>	<u>4.0</u>	<u>0.6</u>
	<u>10.9</u>	<u>2.9</u>	<u>7.5</u>	<u>3.3</u>

The University owns 100% of the issued share capital of the following company which is registered in England and operating in the UK:

Company Name	No of £1 Ordinary Shares
Nottingham University Industrial and Commercial Enterprise Limited	100,000

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 2004	2.3
Shares acquired in University of Nottingham, China	7.7
Shares acquired in University of Nottingham, Malaysia	0.8
Group's share of retained losses	(0.6)
Exchange movements	<u>0.1</u>
As at 31 July 2005	<u>10.3</u>

The University owns 37.5% of the University of Nottingham Ningbo, China, a co-operative joint venture established in China. It has a financial year end of 31 December in accordance with Chinese regulations. The University has invested cash of £3.4m and has received additional equity of £4.4m in recognition of its intellectual property contribution. The majority shareholder has provided infrastructure amounting to £17.2m. The consolidated accounts of the University, reflects a carrying value equal to 37.5% of the net assets, excluding intellectual property, as at 31 July.

The University owns 28.9% of the ordinary share capital of the University of Nottingham Malaysia Campus a company incorporated in Malaysia. It has a financial year end of 31 December in common with its majority shareholder. The University's total investment is £4.7 million. In the accounts of the University this has been written down by the University's share of accumulated losses to date.

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

12. Investment Properties and Endowment Asset Investments

	Investment Properties £m	Endowment Asset Investments £m
Balance at 1 August 2004	0.0	34.1
Transfer between Investments	4.5	(4.5)
Additions	0.0	7.6
Disposals	0.0	(7.6)
Appreciation on Revaluation	0.8	4.4
Cash Balances	<u>0.0</u>	<u>(6.4)</u>
Balance at 31 July 2005	<u>5.3</u>	<u>27.6</u>

Notes to the Accounts - *continued*

12. Investment Properties and Endowment Asset Investments *continued*

	Investment Properties £m	Endowment Asset Investments £m
Represented by:		
Equities	0.0	25.4
Land and Property	5.3	0.0
Cash Balances (Note 28)	0.0	2.2
	<u>5.3</u>	<u>27.6</u>

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

13. Debtors

	Consolidated		University	
	2005 £m	2004 £m	2005 £m	2004 £m
Amounts falling due within one year:				
Debtors	24.1	19.6	22.7	18.4
Amounts due from Subsidiaries	0.0	0.0	2.8	9.5
Prepayments and accrued income	28.9	24.6	28.5	24.5
	<u>53.0</u>	<u>44.2</u>	<u>54.0</u>	<u>52.4</u>

14. Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2005 £m	2004 £m	2005 £m	2004 £m
Obligations under Finance Leases (Note 20)	0.3	0.2	0.0	0.0
Secured Loans (Note 15)	2.0	0.0	2.0	0.0
Hefce Loans	0.4	0.4	0.4	0.4
Payments Received in Advance	3.0	2.4	2.7	2.1
Creditors	10.5	6.8	9.8	6.5
Social Security and Other Taxation Payable	7.0	7.0	7.4	7.1
Amounts due to Subsidiaries	0.0	0.0	3.0	2.7
Accruals and Deferred Income	65.3	59.8	63.6	59.0
	<u>88.5</u>	<u>76.6</u>	<u>88.9</u>	<u>77.8</u>

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

	Consolidated		University	
	2005 £m	2004 £m	2005 £m	2004 £m
Loans from subsidiary companies	0.0	0.0	0.0	6.4
Secured loans	56.6	31.4	56.6	31.4
Hefce loans	0.7	1.2	0.7	1.2
	<u>57.3</u>	<u>32.6</u>	<u>57.3</u>	<u>39.0</u>
Obligations under Finance Leases (Note 20)	1.4	1.6	0.0	0.0
	<u>58.7</u>	<u>34.2</u>	<u>57.3</u>	<u>39.0</u>

The secured loans are with the Royal Bank of Scotland at a rate which is 0.20% above LIBOR. The primary facility, which has no scheduled repayment dates, is for £44.5 million reducing quarterly on a straight-line basis, equivalent to £2 million per annum, with the facility being extinguished in July 2027. 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 2004			
Buildings	49.4	19.7	69.1
Equipment	0.9	2.7	3.6
Total	<u>50.3</u>	<u>22.4</u>	<u>72.7</u>
Grants Received			
Buildings	9.4	0.7	10.1
Equipment	5.9	3.9	9.8
Total	<u>15.3</u>	<u>4.6</u>	<u>19.9</u>
Released to Income and Expenditure			
Buildings (Notes 1 and 4)	(1.1)	(0.2)	(1.3)
Equipment (Notes 1, 3 and 4)	(0.5)	(1.4)	(1.9)
Total	<u>(1.6)</u>	<u>(1.6)</u>	<u>(3.2)</u>
At 31 July 2005			
Buildings	57.7	20.2	77.9
Equipment	6.3	5.2	11.5
Total	<u>64.0</u>	<u>25.4</u>	<u>89.4</u>

17. Endowments

	Consolidated and University		
	Specific £m	General £m	Total £m
At 1 August 2004	21.5	12.6	34.1
Transferred to Reserves	0.0	(10.9)	(10.9)
Appreciation of Endowment Asset Investments	4.1	0.3	4.4
Income for Year	0.4	0.4	0.8
Transferred to Income and Expenditure Account	(0.4)	(0.4)	(0.8)
At 31 July 2005	<u>25.6</u>	<u>2.0</u>	<u>27.6</u>
Representing:			
Fellowships and Scholarships Funds	3.4	0.0	3.4
Prizes Funds	1.0	0.0	1.0
Chairs and Lectureships Funds	13.6	0.0	13.6
Other Funds	7.6	2.0	9.6
	<u>25.6</u>	<u>2.0</u>	<u>27.6</u>

18. Revaluation Reserve

	Consolidated £m	University £m
Balance at 1 August 2004	0.0	0.0
Transfer from Endowment Reserves	4.3	4.3
Revaluations in the period	<u>0.8</u>	<u>0.8</u>
Balance at 31 July 2005	<u>5.1</u>	<u>5.1</u>

Notes to the Accounts - *continued*

19. General Reserve

	Consolidated £m	University £m
Balance at 1 August 2004	112.9	113.6
Transfer from Deficit for the Year	(5.4)	(4.9)
Additional equity in University of Nottingham, China	4.4	0.0
Transfers from Endowment Reserves and Exchange movements	6.6	6.6
Balance at 31 July 2005	<u>118.5</u>	<u>115.3</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 (loss)/surplus for the year before share of associate's losses was £(4.8)m (2004 - £0.5m)

20. Lease Obligations

	Consolidate		University	
	2005	2004	2005	2004
	£m	£m	£m	£m
Obligations under finance leases fall due as follows				
1-2 years	0.3	0.3	0.0	0.0
Between two and five years	1.1	0.9	0.0	0.0
Over five years	<u>0.0</u>	<u>0.4</u>	<u>0.0</u>	<u>0.0</u>
Total over one year (Note 15)	1.4	1.6	0.0	0.0
Within one year (Note 14)	<u>0.3</u>	<u>0.2</u>	<u>0.0</u>	<u>0.0</u>
	<u>1.7</u>	<u>1.8</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>0.1</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>
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>0.2</u>	<u>0.1</u>	<u>0.2</u>	<u>0.1</u>

21. Capital Commitments

	Consolidated		University	
	2005	2004	2005	2004
	£m	£m	£m	£m
Commitments contracted at 31 July	<u>21.1</u>	<u>2.6</u>	<u>21.1</u>	<u>2.6</u>

Notes to the Accounts - *continued*

22. Related party transaction

The University of Nottingham owns a 28.9% stake in the University of Nottingham Malaysia and a 37.5% stake in the University of Nottingham, Ningbo China both of which are accounted for as associated entities (see note 11).

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

	2005		2004	
	Malaysia £000	China £000	Malaysia £000	China £000
Net charges by the University:				
Costs	126	444	232	-
Management fee	275	89	159	-
Owed to/(by) the University at 31 July	435	(1,652)	255	-
Additional share capital acquired	760	3,431	2,300	-

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

	2005 £m	2004 £m
(Deficit)/Surplus for the Year	(5.4)	0.2
Depreciation (Note 10)	8.4	8.1
Loss on disposal of Fixed Assets	0.0	0.2
Impairment of investments	1.0	1.2
Surplus on disposal of off campus accommodation	(1.3)	(0.8)
Share of losses in associated companies	0.6	0.3
Deferred Capital Grants Released to Income (Note 16)	(3.2)	(3.2)
Investment Income (Note 5)	(1.3)	(1.4)
Interest Payable	2.1	1.2
Net Income Retained in/(Released from) Specific Endowments	0.0	(0.2)
Increase in Stocks	0.0	(0.1)
Increase in Debtors	(5.7)	(2.1)
Increase in Creditors	6.3	1.4
Net Cash Inflow from Operating Activities	<u>1.5</u>	<u>4.8</u>

24. Returns On Investments And Servicing Of Finance

	2005 £m	2004 £m
Income from Endowments	0.9	0.5
Other Interest Received	0.4	0.8
Interest Paid	(2.0)	(1.1)
Net Cash (Outflow)/Inflow from Returns on Investments and Servicing of Finance	<u>(0.7)</u>	<u>0.2</u>

Notes to the Accounts - *continued*

25. Capital Expenditure And Financial Investment

	2005 £m	2004 £m
Payments to Acquire Tangible Assets	(49.8)	(32.7)
Payments to Acquire Endowment Asset Investments (Note 12)	<u>(7.6)</u>	<u>(6.7)</u>
Total Payments to Acquire Fixed and Endowment Asset Investments	(57.4)	(39.4)
Receipts from Sales of Endowment Assets (Note 12)	7.6	6.7
Receipts from Sales of Fixed Assets	0.0	0.1
Receipts from Sale of off campus accommodation	2.0	11.1
Deferred Capital Grants Received (Note 16)	<u>16.8</u>	<u>11.9</u>
Net Cash Outflow from Investing Activities	<u><u>(31.0)</u></u>	<u><u>(9.6)</u></u>

26. Acquisitions and Disposals

	2005 £m	2004 £m
Payments to Acquire Share Capital in Associates	<u>2.0</u>	<u>2.3</u>

27. Analysis Of Changes In Consolidated Financing During The Year

	Total £m	Finance Leases £m	Mortgages and Loans £m
Balances at 1 August 2004	<u>34.9</u>	<u>1.9</u>	<u>33.0</u>
New Leases/Loans	32.5	0.0	32.5
Capital Repayments	(6.2)	(0.2)	(6.0)
Foreign exchange translation differences	<u>0.2</u>	<u>0.0</u>	<u>0.2</u>
Net Amount Received/(Repaid) in Year	<u>26.5</u>	<u>(0.2)</u>	<u>26.7</u>
Balances at 31 July 2005	<u><u>61.4</u></u>	<u><u>1.7</u></u>	<u><u>59.7</u></u>

28. Analysis Of Changes In Net Funds

	At 1 August 2004 £m	Cash Flows £m	Other Changes £m	At 31 July 2005 £m
Cash				
Endowment Asset Investments (Note 12)	8.6	(6.4)	0.0	2.2
Cash at Bank and in hand/Bank Overdraft	<u>2.7</u>	<u>0.2</u>	<u>0.0</u>	<u>2.9</u>
	11.3	(6.2)	0.0	5.1
Short Term Investments	7.8	0.3	0.0	8.1
Debt due within one year	(0.6)	(2.0)	0.0	(2.6)
Debt due after one year	<u>(34.2)</u>	<u>(24.3)</u>	<u>(0.2)</u>	<u>(58.7)</u>
	<u><u>(15.7)</u></u>	<u><u>(32.2)</u></u>	<u><u>(0.2)</u></u>	<u><u>(48.1)</u></u>

Notes to the Accounts - *continued*

29. Surplus on disposal of property

	2005 £m	2003 £m
Sale proceeds		2.2
Costs of disposal		
Costs associated with sale	(0.2)	
Net book value of assets disposed of	<u>(0.7)</u>	
		<u>(0.9)</u>
Net Surplus on disposal		<u>1.3</u>

The exceptional item relates to the disposal of student accommodation at Sutton Bonington, whereby the University has granted a 35 year finance lease over the site.

30. 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 multi-employer 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/deficit for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year.

The latest available 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.

An FRS17 valuation has not been carried out on this scheme and hence no disclosures can be made.

Notes to the Accounts - *continued*

30. Pension Schemes - continued

CPAS

The University operates a defined benefit scheme in the UK. A full actuarial valuation was carried out at 1 August 2002. Following that valuation employer contributions have been agreed at the rate of 13.4% of pensionable pay. From 1 November 2004 employer contributions were increased to 14.0% of pensionable pay. There has also been a single payment, from the employer, representing the estimated difference between contributions at 14.0% and 13.4% over the period 1 August 2004 to 31 October 2004. Active members pay in at the rate of 5.00% of pensionable pay.

The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 6.5% per annum, salary increases would be 4.0% per annum and pensions would increase between 2.5% and 3.25% per annum. The market value of the assets of the scheme was £48.0 million with past service liabilities of £67.7 million. The valuation was carried out using the projected unit method.

	2005	2004
	£m	£m
Contributions to USS	13.2	12.1
Contributions to CPAS	3.7	3.4
Contributions to Other Pension Schemes	<u>0.9</u>	<u>0.6</u>
Total Pensions Cost (Note 6)	<u><u>17.8</u></u>	<u><u>16.1</u></u>

CPAS - FRS17 Disclosure

The results of the 2002 valuation have been projected to 31 July 2005 and then recalculated based on the following assumptions:

	At 31 July 2005	At 31 July 2004	At 31 July 2003
Rate of increase in salaries	3.70%	4.00%	3.50%
Increases for pensions in payment post 2003	2.60%	2.80%	2.50%
Increases for pensions in payment pre 2003	3.00%	3.00%	3.00%
Liability discount rate	5.40%	6.00%	5.50%
Inflation assumption	2.70%	3.00%	2.50%
Revaluation of deferred pensions	2.70%	3.00%	2.50%

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

	Long-term rate of return expected at 31 July 2005	Value at 31 July 2005	Long-term rate of return expected at 31 July 2004	Value at 31 July 2004	Long-term rate of return expected at 31 July 2003	Value at 31 July 2003
		£m		£m		£m
Equities	7.00%	51.7	7.25%	40.5	6.50%	37.5
Bonds	4.70%	16.3	5.25%	12.7	4.50%	10.5
Property	7.00%	3.2	7.25%	2.6	6.50%	2.4
Cash	4.50%	<u>1.6</u>	5.00%	<u>2.1</u>	4.50%	<u>1.0</u>
Total market value of assets		72.8		57.9		51.4
Present value of scheme liabilities		<u>(99.4)</u>		<u>(86.1)</u>		<u>(81.0)</u>
Deficit in the scheme		<u>(26.6)</u>		<u>(28.2)</u>		<u>(29.6)</u>
Revised net assets incorporating net pension liability		<u><u>214.0</u></u>		<u><u>191.5</u></u>		<u><u>180.6</u></u>

Notes to the Accounts - *continued*

30. Pension Schemes - continued

Analysis of the amount that would be charged to operating profit

	2005 £m	2004 £m
Current service cost	(3.1)	(3.1)
Past service cost	<u>0.0</u>	<u>0.0</u>
Total operating charge	<u><u>(3.1)</u></u>	<u><u>(3.1)</u></u>

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

	2005 £m	2004 £m
Expected return on pension scheme assets	4.0	3.2
Interest on pension scheme liabilities	<u>(5.2)</u>	<u>(4.5)</u>
Net return	<u><u>(1.2)</u></u>	<u><u>(1.3)</u></u>

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

	2005 £m	2004 £m
Actual return less expected return on pension scheme assets	8.4	0.8
Experience gains and losses arising on the scheme liabilities	0.0	0.0
Changes in assumptions underlying the present value of the scheme liabilities	<u>(6.1)</u>	<u>1.7</u>
Actuarial gain recognised in STRGL	<u><u>2.3</u></u>	<u><u>2.5</u></u>

Movement in deficit during the year:

	2005 £m	2004 £m
Deficit in scheme at start of year	(28.2)	(29.6)
Movement in year:		
Current service cost	(3.1)	(3.1)
Contributions	3.6	3.3
Past service costs	0.0	0.0
Other finance income	(1.2)	(1.3)
Actuarial gain/(loss)	<u>2.3</u>	<u>2.5</u>
Deficit in scheme at year end	<u><u>(26.6)</u></u>	<u><u>(28.2)</u></u>

Notes to the Accounts - *continued*

History of experience gains and losses

	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:				
amount (£m)	8.4	0.8	(0.3)	(12.0)
percentage of the scheme assets	12%	1%	(1%)	(25%)
Experience gains and losses on scheme liabilities:				
amount (£m)	0.0	0.0	(4.5)	0.0
percentage of the present value of the scheme liabilities	0%	0%	(6%)	0%
Total amount recognised in statement of total recognised gains and losses:				
amount (£m)	2.3	2.5	(16.2)	(10.9)
percentage of the present value of the scheme liabilities	2%	3%	(20%)	(18%)

31. 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.

	2005 £m	2004 £m
Balance at 1 August	0.1	0.2
Funding Council Grants	0.8	0.5
Interest Earned	<u>0.0</u>	<u>0.0</u>
	0.9	0.7
Disbursed to Students	<u>(0.7)</u>	<u>(0.6)</u>
Balance Unspent at 31 July	<u><u>0.2</u></u>	<u><u>0.1</u></u>



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