The University of Nottingham

UNITED KINGDOM · CHINA · MALAYSIA

Financial Statements

for the year to 31 July 2010

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Contents

Council Membership (1 August 2009 to 26 October 2010)

President of Council and Pro-Chancellor
Mr Keith Hamill
Vice-President of Council
Mr Mike McNamara [to 31 July 2010]
Members ex-Officio
The Chancellor
Pro-Chancellor
The Vice-Chancellor
The Treasurer
Pro-Vice-Chancellors
Professor Yang Fujia
Dr Hamid Mughal
Professor David Greenaway
Mr John Mills
Professor Karen Cox
Professor Alan Dodson
Professor Christine Ennew
Professor Chris Rudd
Professor Saul Tendler
Professor Bob Webb

External members appointed by the Council
Ms Lyndsey Bainton
Mr Bob Bayman [to May 2010]
Dame Elizabeth Fradd
Ms Diana Garnham
Mrs Ann Greenwood
Mrs Asha Khemka
Mr Nat Puri [to October 2009]
Mr John Robinson
Mr Brian Rossiter
Mr Stephen Russell
Mr John Saunders

Academic members appointed by the Senate
Dr Magnus Brechtken [to 31 August 2010]
Professor David Clarke
Professor Michele Clarke [to 31 August 2010]
Professor Christine Hall
Professor Bob Lloyd [to 31 August 2010]
Dr Gethin Roberts [1 September 2009 to 31 August 2010]
Dr Joel Segal
Professor Judith Still

Alumni Representatives
Mr Neil Watkinson
Ms Louise Wilson

Appointed by the Union of Students
To 31 July 2010
Mr Rob Greenhalgh (President)
Ms Roxy Shamsolmaali (Education Officer)
From 1 August 2010
Mr Will Vickers (President)
Mr Will Bickford Smith (Education Officer)

Senior officers
The Registrar
Chief Financial Officer
Director of Finance
Dr Paul Greatrix (Secretary to Council)
Mr Chris Thompson
Mr Martin Wynne-Jones

Vice-Chancellor's Welcome

2010 has been a landmark year for The University of Nottingham – in teaching and research, in the UK and on the global stage, among our alumni community and in the community at large.

In teaching we continue to improve on our world-class student experience, and it was pleasing to see Nottingham rise further up the rankings in the National Student Survey. Our overall satisfaction score rose to 87 per cent, with a major improvement in our position backed by continuing work to enhance assessment and feedback, personal development and academic support. We are currently investing in a range of new teaching and learning facilities which will contribute to further enhancement of the student experience.

Summer 2010 saw another significant milestone for the institution. I was delighted to welcome our 200,000th graduate to the University's alumni community – a global family that stretches right back to the institution's beginnings in 1881 as University College Nottingham.

Students from more than 150 nations chose to study here this year, boosting international numbers to over 8,000 for the first time in the institution's history. With a further 8,000 studying at our campuses in Asia, the University is now the largest recruiter of international students to a British university. Our growing global reputation was also reflected in this year's QS World University Rankings, which saw Nottingham move into the World Top 75.

The international reputation of the University's research in energy, drug discovery, global food security, aerospace, advanced manufacturing, biomedical imaging and many other fields has helped to push research funding to unprecedented levels.

This year's total – which has reached £150m for the first time – represents an increase of 7.2 per cent on the previous year, and serves as a resounding endorsement of the University's research excellence. It comes against the background of another financial milestone, with our annual turnover passing half a billion pounds for the first time.

On the international stage, we celebrated the tenth anniversary of the University of Nottingham Malaysia Campus – which was recognised by the Malaysian government as one of the nation's elite higher education providers. This accolade followed the conferment of 'Self-Accrediting Status' by the Malaysian Ministry of Higher Education, which is only awarded to mature institutions with a well-established reputation for delivering the very best degree programmes.

At the University of Nottingham Ningbo, China, 2010 saw new strategic partnerships with industry, government and higher education that have strengthened and deepened our presence in one of the world's fastest-developing countries. Our participation in Shanghai Expo showcased Nottingham's world-leading research on energy and sustainability to millions of visitors, and underlined our status as the predominant UK university in Asia.

Our aim is to benefit all of the communities around our campuses and I was delighted this year to attend the opening of the Nottingham University Samworth Academy's new £24m buildings. Through our involvement with the Academy, and our extensive programmes on widening participation, community engagement and volunteering, we are working hard to be an even more socially responsible institution.

Our exceptional and entrepreneurial students play their own part in this, and have also reached a milestone this year. Karnival, the Students' Union fundraising organisation, raised more than £1.2m for charity – making Karni the first student-run fundraising group in the UK to raise more than £1 million in a single year. Our students at the University of Nottingham Ningbo China not only won China's national 'Students in Free Enterprise' competition for their initiatives in social enterprise but also came runners-up in the world competition in Los Angeles.

This year's excellent performance is set against a rapidly changing landscape for higher education. The announcements made in the 2010 Comprehensive Spending Review herald very significant reductions in public funding. Central government cuts to university funding show how important it is that the recommendations of the Browne Review are implemented. Lord Browne's proposals are a comprehensive, fair and realistic response to the need for a properly resourced higher education system. They represent a more equitable balance of public and private investment in higher education, shifting the balance away from the taxpayer and towards the graduate – the beneficiary of the degree.

No-one should be in any doubt that there are very demanding times ahead for UK higher education. But Nottingham is starting from a position of strength. We continue to attract outstandingly able students, we have a talented and committed workforce, a unique global footprint, a hugely supportive alumni community and quite extraordinary campuses which we continue to improve.

This has been a very successful year for the University, and we have many reasons to look to the future with optimism. I look forward to working with you all as we meet the challenges that lie ahead.

David Greenaway

Professor David Greenaway
Vice-Chancellor

Treasurer's Report

Introduction

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

The Financial Statements have been prepared against a backdrop of fundamental changes to the funding of the higher education sector presented by both the Browne Review and the Comprehensive Spending Review. It is too early to comment on the impact of these changes but the University is well placed to respond both to the challenges they create and the more competitive environment they may establish.

Financial highlights

	2010 £m	2009 £m	Change %
Funding Body Grants	144	135	*7*
Tuition Fees and Education Contracts	165	146	*13*
Research Grants and Contracts	105	93	*12*
Other Income	97	86	*13*
Total Income	**511**	**460**	*11*
Surplus for the year	**37**	**13**	
Total Net Assets	**310**	**259**	

Business overview

The University of Nottingham continues to be one of the leading research and teaching institutions in the world and with its two international campuses has recently been described by the Sunday Times as "*the embodiment of the modern international university. It sends its students across the world to work and study – some of them to its two overseas campuses in China and Malaysia – and recruits on a global stage with about a quarter of its students coming from abroad.*"

The University posted a healthy surplus last year at £13million and this has been exceeded this year at £37million reflecting continued increased income, controlled staff costs and other cost savings in anticipation of the expected reduction in government funding over the coming years. The results include £6million receipt from University Partnership Programme (UPP – a third party student accommodation provider) in connection with the extension of the lease on the Broadgate Park student accommodation by a further 10 years.

The surplus will be used to invest in the University infrastructure and to reduce debt levels.

The University recognised the extent of potential reductions in Government funding and initiated a savings and efficiency programme last year. Reduced staff costs have come from not replacing staff that leave, rather than any major redundancy programme.

Growth in income continues to be consistent across all categories, and has exceeded £500million for the first time. The diversified nature of the University's income helps to provide resilience in the face of the forthcoming Government cuts.

Research awards for the year achieved a new record of £150 million and with student applications remaining strong income is forecast to continue to grow over the coming years, despite expected reductions in the HEFCE teaching and research grants. Control over costs remains a key objective to ensure the generation of appropriate levels of surplus required to meet the continuing University need to invest in the infrastructure, student experience and staff.

Environment and risks

This year's planning process, as last year, was undertaken during a period of significant economic uncertainty coupled this year with announcements of major cuts in Government spending. The University recognised in 2009 that savings were required to meet the challenges, mitigate those risks and deliver the desired investment plans and they therefore established a new Savings and Efficiency Taskforce to review and challenge University processes, procedures and costs. The initial budget included costs to facilitate the delivery of savings and the necessary changes to processes but minimal costs were actually incurred, hence the actual surplus of £37million significantly exceeded budget.

Whilst it is encouraging that savings were delivered without the need to spend the contingency, the pressure remains to continue to improve processes and manage costs as uncertainty increases over all areas of income, not just Government funding, but also the level of home tuition fees, following the Browne Review. All costs are being reviewed with budget holders being challenged over the level of discretionary spending. The need to identify additional income sources and increase benevolent donations are also key University objectives.

Both international campuses continue to grow with a total of over 7,000 students currently enrolled with an expected rise to over 8,000 following the latest intakes.

Treasurer's Report

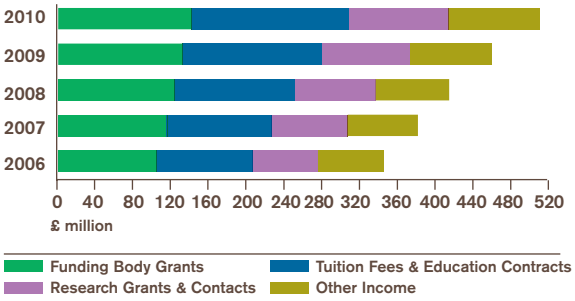
China continues to deliver a growing surplus however Malaysia reported a small deficit in 2010 as student growth was less than budgeted but investment continued into developing the campus. Negotiations continue with the respective partners in China and Malaysia regarding the future strategies and development of both campuses.

The actuarial valuation for CPAS was published last year with the actuarial deficit increasing from £26.4million to £50.5million. Additional employer contributions have been agreed between the Trustees and the University and the recovery plan has been accepted by the Pensions Regulator. On an FRS17 basis, the CPAS deficit was consistent with the prior year being £51.6million (2009: £52million). The FRS17 accounting adjustments have reduced the pension costs charged in the accounts by £2.4million (2009: £1.5million).

The next actuarial valuation for USS is at March 2011 however increased employer contributions of 2% were introduced from October 2009 in expectation of a significant deficit and a consultation is currently in progress regarding proposed changes to the scheme. USS does not appear on the University balance sheet due to University's share of the assets and liabilities are not separately identified.

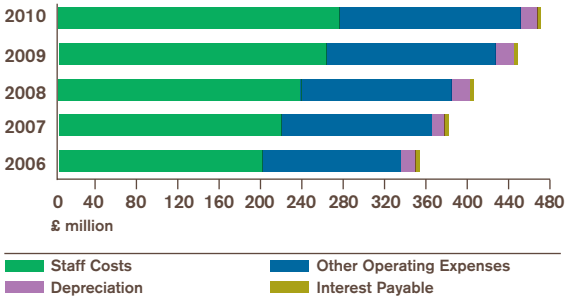
Income analysis

Tuition fees are the largest income stream representing over 32% of total income but all categories have shown consistent growth over the recent years.

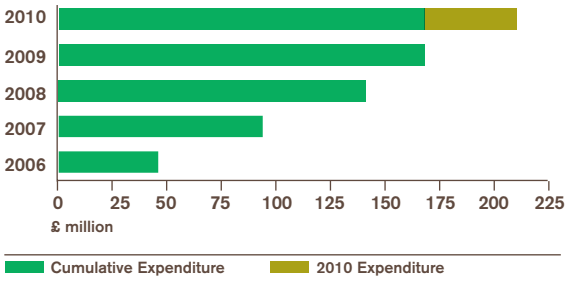


Expenditure analysis

Staff costs represent 58% of University total costs but over 76% within Academic departments and Research. Growth in income has exceeded the rise in salary costs over the recent years but this continues to be a major challenge.



Capital expenditure and financing



The University has invested consistently in its teaching and research infrastructure and student facilities, averaging approximately £40million per annum over the last 5 years with investment in 2010 being £36million. The largest spend during the year has been on HEFCE funded Capital Investment Fund (CIF) projects, principally to improve research facilities and acquire additional equipment.

Other major projects completed during the year were the £5million Geospatial building on Jubilee Campus and the £4million new building for the Institute of Population Health at the Nottingham City Hospital site.

Construction commenced during the year on the following buildings all due for completion in 2011:

- New building for the School of Mathematics (£7million)
- Bioenergy building at Sutton Bonington (£7million)
- Engineering and Sciences Learning Centre (£10million)
- Humanities building (£8million)
- Energy Technologies Building at Jubilee (£6.5million)

Treasurer's Report

The total capital expenditure was funded by £23million of capital grants, £6million from the additional lease premium, with the balance from working capital.

Cash flow from operating activities remained strong at £46million (2009: £40million), with a net cash inflow of £36million (2009: £20million) after capital expenditure and other items.

At 31 July 2010 the University had bank loans and overdraft of £11million off-set by £5.4million of cash and short-term deposits (2009: loans of £48.4million off-set by £6.9million of cash and short-term deposits). CIF receipts unspent at the 31 July 2010 of approximately £18million (2009: £16million) have contributed to the lower debt figure.

The University has a committed facility to borrow up to £125million, consisting of £110million revolving credit facility plus £15million multi-option facility. The University's loans with the Royal Bank of Scotland are at a rate linked to LIBOR but to reduce the downside risk of increasing interest rates has two interest rate caps in place, totalling £20 million. The revolving credit facility is amortised, quarterly over 25 years commencing October 2010 where the available facility is reduced by £800,000.

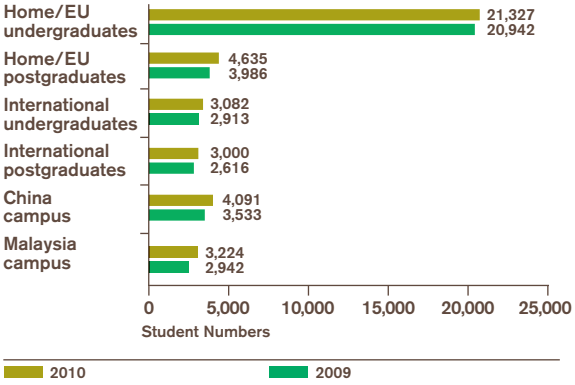
The University has the ability to drawdown and repay its borrowings as required to manage its cash requirements. The University's approach is to minimise its borrowings thereby carrying limited cash reserves. Any surplus cash is only invested for short periods with counterparties approved by the University's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

Returns on Endowment investments showed some recovery from previous years poor performance. The University will soon launch a campaign to grow these funds to support its future development.

Student analysis

Student growth reflects the investment in the core infrastructure at the campuses in the UK, Malaysia and China. Total students registered in 2010 were nearly 40,000, with nearly 22% (2009: 20%) being post graduate students across all campuses. The biggest increase has been the number of home/EU post graduate students partially reflecting the increased demand for additional education and qualifications to enhance employability in the difficult economic climate.

The University moved up the rankings in the National Student Survey this year, with an overall satisfaction score of 87 per cent. The University rose in the assessment and feedback, personal development and academic support aspects of the survey, which polls all final year students at UK universities on their student experience. The rise in the national rankings reflects continued staff efforts to respond to student feedback highlighted in the survey in previous years.



Key achievements

The University has confirmed its place among the world's higher education elite in the latest international league tables. In the 2010 QS World University Rankings, Nottingham has moved up into the top 75 – and is the fastest-rising UK university in the World Top 100. Nottingham climbed 18 places this year, up from 91st in 2009 to 73rd in 2010, reflecting its outstanding reputation for teaching, learning and research.

The University was named as runner up in The Sunday Times University of the Year. As noted above the University was described as the embodiment of the modern international university — Nottingham is cited for its spirit of enterprise and innovation. There was recognition for the opening of the Nottingham University Samworth Academy (NUSA); the University's extensive investment in aerospace research, bioenergy, biofuels, brewing technology research and food and drink processing; and for the encouragement it gives students to work and study across the world.

The University is still the only foreign university to operate an independent campus on the Chinese mainland and together with its campus in Malaysia offers its students unprecedented opportunities to study abroad.

Treasurer's Report

Public benefit

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

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

Within the University's Missions and Values it states:

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

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

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

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

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

In 2009/10 around 7,500 awards were made to students for bursaries, scholarships and hardship awards totalling nearly £7million.

In the recent Sunday Times University Guide reference was made to the University placing itself at the cutting edge. *"Nowhere more so than in the establishment of the Nottingham University Samworth Academy which opened last September… Open to children of all abilities, it aims to bring universities such as Nottingham within reach of more children."*

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

Karnival, The University of Nottingham Students' Union fundraising organisation, raised more than £1.2million for charity during 2009. This makes Karnival the first student-run fundraising group in the UK to raise more than £1 million in a single year.

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

Credit rating

The University was delighted to maintain its AA- Credit Rating from Standard & Poors, announced in July 2010. The report noted that Nottingham has a strong academic reputation, partly demonstrated by its high position in the 2008 Research Assessment Exercise (RAE), where it gained the highest possible score across a number of departments. This led to an increase in related grant funding of £9.2 million per year.

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

The Agency noted its major rating factors as:

Strengths:

- High academic entry standards and strong student demand
- Large student base of approximately 32,000 on its U.K. campus, with diverse academic offering
- Regulatory and financial U.K. government support

Weaknesses:

- Public sector funding set to reduce significantly
- Access to liquidity relies on committed facilities arranged with a single lender.

Compliance

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

Conclusion

The University has had a very successful year, delivering a strong surplus and reducing debt whilst continuing to invest for the future. The University recognises the challenges faced within the sector but is confident that it is well positioned, with clear strategies to meet those challenges and to continue to deliver excellence in teaching, research and the student experience.

John Mills,
Treasurer & Chair of Finance Committee
26 October 2010

Governance

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

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

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

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

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

1. Role

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

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

2. Membership and meetings

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

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

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

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

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

3. Primary powers and responsibilities

Overall powers and responsibilities

3.1 To approve the mission and strategy of the University and its academic and business plans;

3.2 To ensure that processes are in place to monitor the performance and effectiveness of the University against plans and agreed performance indicators and benchmarking against comparable Universities;

3.3 To appoint the Vice-Chancellor, after considering a report from a Joint Committee of Council and Senate (which is chaired by the President of Council) and to put in place arrangements for monitoring the Vice-Chancellor's performance and providing feedback.

3.4 To delegate authority to manage the University to the Vice-Chancellor, who is the Chief Executive of the University. This includes its corporate, financial, estate and personnel management. The Council will regularly review the policies, procedures and limits for delegated authorities;

3.5 To act as the principal financial and business authority of the University; including approving annual audited financial statements, appointing external auditors, approving budgets and financial plans, approving transactions, contracts, leases, investments and banking arrangements (subject to approved delegated limits), ensuring the maintenance of proper accounting records, having overall responsibility for the University's assets, property and estate, having overall responsibilities for the University's liabilities, including pension liabilities (subject to approved delegated limits) and acting as trustee for legacies endowments, bequests or gifts;

Governance

3.6 To ensure the establishment and monitoring of effective systems of internal control and accountability, including financial and operational controls and the management of conflicts of interest. To establish appropriate procedures for internal audit and monitor the results of internal audit work;

3.7 To ensure procedures for assessing risk and risk mitigations and controls, consider the assessments arising and ensure that appropriate actions are taken to respond to risk;

3.8. To receive reports on and consider teaching and research and the welfare and development of students;

3.9 To be the employing authority for all of the staff employed by the University and to approve and monitor its human resources strategy and practices;

3.10 To establish and receive reports from a Remuneration Committee, comprising external members, which determines the remuneration of the Vice-Chancellor, approves proposals from the Vice-Chancellor for the remuneration of senior management and professorial staff and reviews overall remuneration and remuneration policies;

3.11 To establish delegated procedures for the appointment of staff and the approval of contracts with staff and to appoint external members of Council to Appointment Committees dealing with senior appointments or appointments when the involvement of external members of Council would be appropriate;

3.12 To appoint Committees for hearing grievances and to consider redundancies and appeals in relation to employment matters and to receive reports from the Committees and, where relevant, approve the recommendations of the Committees;

3.13 To ensure that non-discriminatory systems are in place to provide Equality and Diversity of opportunity for staff and students and to monitor their effectiveness;

3.14 To have ultimate responsibility for the Health and Safety of employees, students and others affected by its operations. This responsibility includes ensuring that there is a written statement of policy, arrangements for the implementation of the policy and appropriate monitoring;

3.15 To be the University's legal authority, ensuring that processes are in place for managing legal obligations arising from contract and legal commitments and ensuring they are complied with;

Other powers and responsibilities

3.16 To propose amendments to the Charter and to draft and enact Statutes, provided that Senate is given the opportunity to submit reports on any proposals for change to the Charter or Statutes, and to approve Ordinances and Regulations;

3.17 If necessary to appoint an Acting Vice-Chancellor;

3.18 To appoint a Chancellor;

3.19 To elect the President of Council to act as its chair and to elect Pro-Chancellors, the Treasurer and the Vice-President of Council;

3.20 To appoint external members of Council on the recommendation of the Nominations Committee. The Nominations Committee is responsible for the recruitment and assessment of possible candidates and for considering and making recommendations on the appropriate balance and diversity of skills, expertise, attributes and backgrounds within Council;

3.21 To establish appropriate procedures for rotation and induction of members;

3.22 To appoint annually the Chairs and the external members of Council Committees and to approve the terms of reference of Council Committees;

3.23 To delegate in accordance with Ordinances the appointment of Emeritus Professors and Honorary Professors, Readers, Lecturers or Fellows, to regulate the conferment of Honorary Degrees and to establish delegated procedures for appointing external examiners;

3.24 To approve the expulsion of students;

3.25 To establish processes to monitor and evaluate the effectiveness of Council; including a formal review to be conducted at least every four years;

3.26 To exercise all such powers as are or may be conferred on the Council by the Charter, Statutes, Ordinances and Regulations and to ensure compliance with the University's Charter, Statutes, Ordinances and Regulations;

3.27 To appoint a Secretary in accordance with Statutes and Ordinances and ensure that there is a direct and effective line of accountability to the President of Council in relation to Council business;

3.28 To oversee the Students' Union.

3.29 To select a Seal Arms and a Mace for the University and have the sole custody and use of the Seal.

In 2009-10 the Council of the University comprised the Chancellor, Vice-Chancellor, up to 18 external, two student and 14 academic persons appointed under the University's Statutes, the majority of whom are non-executive. The role of President of Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specifically reserved to the Council for decision are set out in the University's Statutes. By custom and under the Higher Education Funding Council for England (HEFCE) Financial Memorandum, the Council is responsible for the University's ongoing strategic direction, approval of major developments and receiving regular reports from Executive Officers on the day to day operations of its business and its subsidiaries. The Council meets five times a year and has several Committees, all of which are formally constituted with terms of reference. The key Committees are noted below.

Governance

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

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

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

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

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

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

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

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

Statement of internal control

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

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

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

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

- Regular meetings of Council consider the plans and strategic direction for the institution, advised by its key Committees, as noted above.
- The Audit Committee has been requested to provide oversight of risk management. This provides a formalised reporting and appraisal mechanism in addition to management reports noted above.

- The Audit Committee receives regular reports from the Head of Internal Audit, together with recommendations for improvement. This includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the institution's systems of risk management, internal control and governance.
- An organisation-wide risk assessment framework is maintained and updates are considered by Management Board. Risk considerations form part of the annual budgeting and planning cycle and inform the work undertaken by Internal Audit.
- Key financial performance indicators and monthly management accounts are presented at each meeting of the Finance Committee.
- The annual budget, forward estimates and major investment proposals are approved by both Finance Committee and Council, following detailed review, challenge and assessment by the University's Management Board.

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

The review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external 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 Members of the Council of The University of Nottingham

We have audited the financial statements of The University of Nottingham for the year ended 31 July 2010 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the note of historical cost surpluses and deficits, the statement of consolidated total recognised gains and losses, the consolidated and University balance sheets, the consolidated cash flow statement, the reconciliation of net debt and the related notes 1 to 30. These financial statements have been prepared under the accounting policies set out therein. This report is made solely to the governing body in accordance with the financial memorandum dated June 2008. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the board of governors as a body, for our audit work, for this report, or for the opinions we have formed.

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

The governing body's responsibilities for preparing the Annual Report and the financial statements in accordance with the University's statute, the Statement of Recommended Practice: Accounting for Further and Higher Education and other applicable law and United Kingdom accounting standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of the governing body's responsibilities. Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England.

We also report if, in our opinion, the information given in the Treasurer's report is not consistent with the financial statements, if the University has not kept adequate accounting records, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report, including the Corporate Governance Statement and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any further information outside the Annual Report.

We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

Basis of opinion

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

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

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of affairs of the University and the Group as at 31 July 2010 and of the surplus of the Group for the year then ended;
- the financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the funding council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum, with the funding council.

Deloitte LLP
Chartered Accountants and Statutory Auditors
Nottingham, UK 1 November 2010

Statement of Principal Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

4. Pension Schemes
The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State Second Pension. The Funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the Schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the Schemes.

A small number of staff remain in other pension schemes.

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

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

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

Statement of Principal Accounting Policies

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

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

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

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings.

Assets in the Course of Construction are not depreciated.

8. Equipment and Other Assets
Equipment, including computers and software, costing less than £30,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.
Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:
- Telephone equipment - 7 years
- Motor vehicles and other general equipment - 3 – 10 years
- Equipment acquired for specific research projects - project life (generally 3 years)

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

Heritage Assets are recorded at cost and not depreciated.

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

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

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

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

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 an 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 2010

	Note	2010 £m	2009 £m
INCOME			
Funding Body Grants	1	144.4	134.6
Tuition Fees and Education Contracts	2	165.4	146.4
Research Grants and Contracts	3	104.1	93.4
Other Operating Income	4	95.7	84.7
Endowment and Investment Income	5	1.0	1.2
Total Income		510.6	460.3
EXPENDITURE			
Staff Costs	6	273.6	257.3
Other Operating Expenses	7	178.2	169.3
Depreciation	10	20.0	18.9
Interest and other Finance Costs	8	2.8	3.2
Total Expenditure	9	474.6	448.7
Surplus for the Year before associates		36.0	11.6
Share of profits in associated companies	11	1.2	1.2
Surplus for the Year after associates		37.2	12.8
Surplus for the year transferred from accumulated income in endowment funds		0.2	0.2
Net Surplus for year retained within general reserves	20	37.4	13.0

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 2010

	Note	2010 £m	2009 £m
Surplus for the year after Associates		37.2	12.8
Appreciation / (Depreciation) of Endowment Asset Investments	18	2.9	(3.4)
New Endowments	18	0.2	0.4
Unrealised Surplus / (Deficit) on revaluation of Investment Properties	19	0.2	(0.2)
Exchange movements on share of Associates		0.6	1.6
Actuarial loss on pension scheme	29	(2.0)	(23.2)
TOTAL RECOGNISED GAINS / (LOSSES) RELATING TO THE YEAR		39.1	(12.0)

Reconciliation

Opening reserves and endowments	110.2
Total recognised gains for the year	39.1
Closing reserves and endowments	149.3

Consolidated and University Balance Sheets

As at 31 July 2010

	Note	Consolidated 2010 £m	Consolidated 2009 £m	University 2010 £m	University 2009 £m
FIXED ASSETS					
Tangible Assets	10	401.8	386.0	401.0	385.0
Investments	11	18.1	15.6	9.0	9.1
		419.9	401.6	410.0	394.1
INVESTMENT PROPERTIES	12	3.0	2.8	3.0	2.8
ENDOWMENT ASSETS	13	29.2	26.4	29.2	26.4
CURRENT ASSETS					
Stocks		1.2	1.1	1.1	1.0
Debtors	14	68.4	60.1	69.3	62.3
Short Term Investments		5.4	2.9	2.0	1.9
Cash at Bank and in Hand		0.0	4.0	0.0	3.7
		75.0	68.1	72.4	68.9
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	15	(159.6)	(139.2)	(158.6)	(137.2)
NET CURRENT LIABILITIES		(84.6)	(71.1)	(86.2)	(68.3)
TOTAL ASSETS LESS CURRENT LIABILITIES		367.5	359.7	356.0	355.0
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	16	(5.8)	(48.4)	(6.0)	(49.8)
NET ASSETS EXCLUDING PENSIONS LIABILITY		361.7	311.3	350.0	305.2
NET PENSIONS LIABILITY	29	(51.6)	(52.0)	(51.6)	(52.0)
TOTAL NET ASSETS INCLUDING PENSIONS LIABILITY		310.1	259.3	298.4	253.2
DEFERRED CAPITAL GRANTS	17	160.8	149.1	160.2	148.3
ENDOWMENTS					
Expendable	18	1.7	1.9	1.7	1.9
Permanent	18	27.5	24.5	27.5	24.5
		29.2	26.4	29.2	26.4
RESERVES					
Income and Expenditure account excluding pension reserve	20	169.2	133.5	158.1	128.2
Pension Reserve	29	(51.6)	(52.0)	(51.6)	(52.0)
Income and Expenditure account including pension reserve		117.6	81.5	106.5	76.2
Revaluation reserve	19	2.5	2.3	2.5	2.3
		120.1	83.8	109.0	78.5
TOTAL FUNDS		310.1	259.3	298.4	253.2

The financial statements on pages 13 to 33 were approved by Council on 26 October 2010 and signed on its behalf by:

PROFESSOR DAVID GREENAWAY
Vice Chancellor

JOHN MILLS
Treasurer and Chairman of Finance Committee

CHRIS THOMPSON
Chief Financial Officer

MARTIN WYNNE-JONES
Director of Finance

Consolidated Cash Flow Statement

For the Year Ended 31 July 2010

	Note	2010 £m	2009 £m
Net Cash Inflow from Operating Activities	24	46.2	39.7
Returns on Investments and Servicing of Finance	25	(1.6)	(1.8)
Capital Expenditure and Financial Investment	26	(8.4)	(17.6)
Cash Inflow before Use of Liquid Resources and Short-term Investments		36.2	20.3
Management of Liquid Resources	28	(2.5)	0.6
Financing	27	(40.2)	(16.9)
(DECREASE)/ INCREASE IN CASH	28	(6.5)	4.0

Reconciliation of Net Cash Flow to Movement in Net Debt

		2010 £m	2009 £m
(Decrease) / Increase in Cash in the Year		(6.5)	4.0
Increase / (Decrease) in Short Term Investments		2.5	(0.6)
Repayment of Debt	27	221.5	210.7
New Loans	27	(181.3)	(193.8)
Change in net debt resulting from cash flows		36.2	20.3
Effect of foreign exchange		(0.8)	(0.5)
Bequest of Short Term Investments		0.0	0.2
CHANGE IN NET DEBT		35.4	20.0
NET DEBT AT 1 AUGUST		(35.7)	(55.7)
NET DEBT AT 31 JULY	28	(0.3)	(35.7)

Notes to the Accounts

For the Year Ended 31 July 2010

1. Funding Body Grants

	2010 £m	2009 £m
Recurrent grants from HEFCE	127.3	116.2
Specific grants from HEFCE	6.4	7.7
Grants from TDA	2.7	3.0
Deferred Capital Grants Released in Year		
Buildings (Note 17)	2.4	2.8
Equipment (Note 17)	5.6	4.9
	144.4	134.6

2. Tuition Fees and Education Contracts

	2010 £m	2009 £m
Full-time credit bearing courses - home fees	60.5	53.2
Full-time credit bearing courses - international fees	68.0	60.8
Part-time credit bearing courses	3.5	2.7
Other teaching contracts	25.1	22.9
Non credit bearing courses and other fees	8.3	6.8
	165.4	146.4

3. Research Grants and Contracts

	2010 £m	2009 £m
Research Councils	49.0	44.3
UK Based Charities	13.0	13.0
UK Central/Local Government, Health and Health Authorities	17.1	12.9
UK Industry, Commerce and Public Corporations	8.2	9.2
EU Government and Other Sources	13.6	11.2
Other Grants and Contracts	3.2	2.8
	104.1	93.4

4. Other Operating Income

	2010 £m	2009 £m
Residences, Catering and Conferences	30.2	32.2
Other Services Rendered	27.8	26.1
Health Authorities	10.9	8.6
Released from Deferred Capital Grants	0.5	0.5
Lease Premium	6.0	0.0
Other Income	20.3	17.3
	95.7	84.7

In 2002/03 the University disposed of a property via a long lease.
The lease has been renegotiated and extended in the year to yield £6m lease premium.

5. Endowment and Investment Income

	2010 £m	2009 £m
Income from Permanent Endowments (Note 18)	0.9	0.9
Other Interest Receivable	0.1	0.3
Finance income for pension scheme (Note 29)	0.0	0.0
	1.0	1.2

Notes to the Accounts

6. Staff

	2010 £m	2009 £m
Staff Costs:		
Gross Pay	228.2	217.0
Social Security Costs	17.6	17.2
Other Pension Costs (Note 29)	27.8	23.1
	273.6	257.3

	2010 £000	2009 £000
Emoluments of the Vice Chancellor		
Remuneration - current Vice Chancellor	307.0	252.0
Remuneration - previous Vice Chancellor	0.0	56.0
Emoluments of the Vice Chancellor	307.0	308.0

The current Vice Chancellor was appointed on 1 October 2008 therefore the comparative amounts represent 10 months remuneration. The remuneration of the current Vice Chancellor comprises annual remuneration of £307,000 (2009 £302,000).

University pension contributions to USS are paid at the same rate as for other academic staff and amounted to £41,517 (2009 £30,033).

Compensation for loss of office paid to employees earning in excess of £100,000 per annum.	0	0

	Number	Number
Average Staff Numbers by Major Category:		
Teaching and Research	2,975	2,943
Technical	583	594
Administrative	1,808	1,814
Other, including Clerical and Manual	748	744
	6,114	6,095

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
£100,000 - £109,999	35	38
£110,000 - £119,999	13	10
£120,000 - £129,999	11	11
£130,000 - £139,999	10	7
£140,000 - £149,999	18	13
£150,000 - £159,999	7	12
£160,000 - £169,999	10	6
£170,000 - £179,999	8	7
£180,000 - £189,999	5	5
£190,000 - £199,999	3	2
£200,000 - £209,999	1	0
£230,000 - £239,999	0	1

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

Notes to the Accounts

7. Other Operating Expenses

	2010 £m	2009 £m
Purchase, Hire and Repair of Equipment	21.4	19.5
Consumables and Laboratory Expenditure	17.3	16.7
Published Materials	5.6	5.4
Travel and Subsistence	11.0	9.1
Professional and Other Fees	34.6	32.4
Fellowships, Scholarships and Prizes	33.3	30.0
Catering Supplies	5.2	5.4
Repairs and General Maintenance	13.6	13.0
Heat, Light, Water and Power	10.0	12.5
Rent, Rates and Insurance	4.2	4.8
Grants to University of Nottingham Students Union	1.7	1.7
Auditors' Remuneration	0.1	0.2
Training	1.6	1.8
Advertising	1.6	2.0
Impairment of Investments	1.1	0.2
Other Expenses	15.9	14.6
	178.2	169.3

Auditors' Remuneration includes £85,000 in respect of audit services for the group, of which £57,000 relates to the University, and £61,500 in respect of non audit services comprising predominantly of pension advice and seconded staff. The 2009 expenditure was £94,700, £57,300 and £104,300 respectively.

8. Interest and other Finance Costs

	2010 £m	2009 £m
Loans not wholly repayable within five years	0.5	1.9
Finance Leases	0.0	0.0
Finance costs for pension scheme (Note 29)	2.3	1.3
	2.8	3.2

9. Analysis of Expenditure By Activity

	Staff Costs £m	Dep'n £m	Other Operating Expenses £m	Interest Payable £m	2010 Total £m	2009 Total £m
Academic Departments	168.6	3.9	44.5	0.0	217.0	208.3
Research Grants and Contracts	41.0	2.3	35.2	0.0	78.5	71.3
Total Teaching and Research	209.6	6.2	79.7	0.0	295.5	279.6
Academic Services	15.2	3.9	12.9	0.0	32.0	32.6
Administration	26.2	0.1	31.8	0.0	58.1	46.9
Premises	8.7	7.6	24.4	0.0	40.7	40.6
Residences, Catering and Conferences	7.9	1.3	12.0	0.0	21.2	23.6
Other Expenses	6.0	0.9	17.4	2.8	27.1	25.4
Total per Income and Expenditure Account	273.6	20.0	178.2	2.8	474.6	448.7

Notes to the Accounts

10. Tangible Assets

Consolidated

	Land and Buildings Freehold £m	Land and Buildings Long Leasehold £m	Equipment £m	Assets in Course of Construction £m	Heritage Assets £m	Total £m
Cost						
At 1 August 2009	367.4	15.2	101.1	11.9	0.5	496.1
Additions at Cost	13.8	0.0	12.1	9.9	0.0	35.8
Transfers	7.0	0.0	1.5	(8.5)	0.0	0.0
Disposals	0.0	0.0	(3.9)	0.0	0.0	(3.9)
At 31 July 2010	388.2	15.2	110.8	13.3	0.5	528.0
Depreciation						
At 1 August 2009	54.1	2.3	53.7	0.0	0.0	110.1
Charge for Year	7.6	0.2	12.2	0.0	0.0	20.0
Eliminated on Disposals	0.0	0.0	(3.9)	0.0	0.0	(3.9)
At 31 July 2010	61.7	2.5	62.0	0.0	0.0	126.2
Net Book Value						
At 31 July 2010	326.5	12.7	48.8	13.3	0.5	401.8
At 31 July 2009	313.3	12.9	47.4	11.9	0.5	386.0

University

	Land and Buildings Freehold £m	Land and Buildings Long Leasehold £m	Equipment £m	Assets in Course of Construction £m	Heritage Assets £m	Total £m
Cost						
At 1 August 2009	367.4	15.2	99.6	11.9	0.5	494.6
Additions at Cost	13.8	0.0	12.1	9.9	0.0	35.8
Transfers	7.0	0.0	1.5	(8.5)	0.0	0.0
Disposals	0.0	0.0	(3.9)	0.0	0.0	(3.9)
At 31 July 2010	388.2	15.2	109.3	13.3	0.5	526.5
Depreciation						
At 1 August 2009	54.1	2.3	53.2	0.0	0.0	109.6
Charge for Year	7.6	0.2	12.0	0.0	0.0	19.8
Eliminated on Disposals	0.0	0.0	(3.9)	0.0	0.0	(3.9)
At 31 July 2010	61.7	2.5	61.3	0.0	0.0	125.5
Net Book Value						
At 31 July 2010	326.5	12.7	48.0	13.3	0.5	401.0
At 31 July 2009	313.3	12.9	46.4	11.9	0.5	385.0

Included within freehold land and buildings is £27.6m (2009 £22.8m) of land which is not being depreciated.

Notes to the Accounts

11. Investments

	Consolidated		University	
	2010 £m	2009 £m	2010 £m	2009 £m
Subsidiary Company	0.0	0.0	0.4	0.4
Associated Companies	17.5	15.0	8.0	8.1
Investments	0.6	0.6	0.6	0.6
	18.1	15.6	9.0	9.1

Included within investments are amounts invested in University collaborations and spin out companies. The majority of the investments have been written down to nil. The total cost of such investments was £5.4m (2009 £4.4m) with an impairment provision of £4.8m (2009 £3.8m). The total amount invested in the year was £1.1m (2009 £0.2m) and the impairment charge in the year was £1.1m (2009 £0.2m).

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

Investment	Type of business	% Holding
AIMS Solutions Limited	Other software consultancy and supply	24.0%
Aptia Solutions Limited	Software publishing	24.9%
BioCity Limited	Accommodation (biotechnology and health companies)	33.3%
Cellaura Technologies Limited	Research and development	29.3%
Critical Pharmaceuticals Limited	Novel drug delivery devices	10.7%
Encos Limited	Research and development	8.0%
EventMAP	Software development and application	15.0%
Evocell Limited	Research and development	9.3%
FAHRAS Limited	Health related software	18.9%
Flavometrix Limited	Research and development	20.0%
Gamma Technologies Limited	Development and licensing of computer aided engineering	5.0%
Geospatial Research Centre (NZ) Limited	Research and development	30.0%
Lachesis Fund	Seed fund investment	19.9%
M4 Technologies Limited	Research and development	24.0%
Molecular Profiles Limited	Research and development	10.0%
Monica Healthcare Limited	Research and development	13.8%
Nottingham Gynaecological Devices Limited	Research and development	22.0%
Nottingham Technologies Asia (Hong Kong)	Consultancy	80.0%
OncImmune Limited	Research and development	19.5%
Pharminox Limited	Human health activities	2.4%
Promeathean Particles Limited	Inorganic nanoparticle dispersion manufacture	48.9%
Regentec Limited	Research and development	24.0%
Scancell Holdings plc	Research and development	1.4%
Sherwood Therapeutics Limited	Research and development	38.0%
Spirogen Limited	Human health activities	6.9%
Ticketing Network East Midlands	Ticket services	25.0%
U21 Equity Limited	University networking organisation	12.0%

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 (NOTICE)	100,000
UNIP Management Limited	2
Eminate Limited	2

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

The consolidated results of the group incorporate the above 100% owned companies and those of Nottingham University Foundation Limited, a company granted charitable status in April 2003.

Notes to the Accounts

11. Investments continued
Investment in Associated companies

	Consolidated £m	University £m
As at 1 August 2009	15.0	8.1
Investment in University of Nottingham, China	0.0	(0.4)
Share of retained profits/(losses)	1.2	(0.3)
Exchange movements	1.3	0.6
As at 31 July 2010	17.5	8.0

The University owns 37.5% of the University of Nottingham Ningbo, China, a co-operative joint venture established in China. It has a financial year end of 31 December in accordance with Chinese regulations. The consolidated accounts of the University reflects a carrying value of £12.9m (2009 £10.7m) equal to 37.5% of the net assets, excluding intellectual property, as at 31 July. The University has decreased its investment in the University of Nottingham, Ningbo China by £375,000 without changing its shareholding.

The University owns 29.1% of the ordinary share capital of the University of Nottingham, Malaysia, a company incorporated in Malaysia. It has a financial year end of 31 December in common with its majority shareholder. The consolidated accounts of the University reflects a carrying value of £4.6 million (2009 £4.3 million) equal to 29.1% of the net assets, excluding intellectual property, as at 31 July.

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

12. Investment Properties

	Consolidated and University 2010 £m	2009 £m
Balance at 1 August	2.8	2.9
Appreciation/(Depreciation) on Revaluation	0.2	(0.1)
Balance at 31 July	3.0	2.8

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

13. Endowment Assets

	Consolidated and University 2010 £m	2009 £m
Balance at 1 August	26.4	29.6
Net transfer from Fixed Assets	0.0	0.0
Additions	4.0	4.3
Disposals	(3.8)	(4.4)
Appreciation/(Depreciation) on Revaluation	2.9	(3.4)
(Decrease)/increase in Cash Balances	(0.3)	0.3
Balance at 31 July	29.2	26.4
Represented by:		
Fixed Interest Stocks	4.9	4.5
Equities	18.5	15.8
Land and Property	0.3	0.3
Cash Balances (Note 28)	5.5	5.8
	29.2	26.4

Included within the above balances is accumulated income yet to be applied of £3.2m (2009: £3.1m).

Notes to the Accounts

14. Debtors

	Consolidated		University	
	2010 £m	2009 £m	2010 £m	2009 £m
Amounts falling due within one year:				
Debtors	22.4	18.7	21.5	17.7
Amounts due from Subsidiaries	0.0	0.0	2.2	3.3
Prepayments and accrued income	45.5	40.5	45.1	40.4
	67.9	59.2	68.8	61.4
Amounts falling due after more than one year:				
Prepayments and accrued income	0.5	0.9	0.5	0.9
	0.5	0.9	0.5	0.9
Total Debtors	68.4	60.1	69.3	62.3

15. Creditors: Amounts Falling Due Within One Year

	Consolidated		University	
	2010 £m	2009 £m	2010 £m	2009 £m
Bank Overdraft	2.2	0.0	2.9	0.0
Bank Loans (Note 16)	3.2	0.0	3.2	0.0
Payments Received in Advance	2.5	3.1	2.0	2.6
Trade Creditors	17.9	15.1	16.7	14.9
Social Security and Other Taxation Payable	10.4	9.1	10.4	9.1
Amounts due to Subsidiaries	0.0	0.0	1.6	0.9
Accruals and Deferred Income	123.4	111.9	121.8	109.7
	159.6	139.2	158.6	137.2

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

	Consolidated		University	
	2010 £m	2009 £m	2010 £m	2009 £m
Loans from subsidiary companies	0.0	0.0	0.2	1.4
Bank Loans	5.6	48.4	5.6	48.4
Hefce loans	0.2	0.0	0.2	0.0
	5.8	48.4	6.0	49.8

The bank loans are with the Royal Bank of Scotland at a rate which is 0.20% above LIBOR. The total facility is for £110 million and is a 25 year revolving credit facility with straight line amortisation of £0.8m per quarter over 25 years commencing October 2010 with a £30 million bullet repayment at the end. The University has the ability to repay and redraw against the facility over the period of the loans and utilises this facility to manage its cash requirements. In addition the University has a multi-option facility for £15 million. The University has entered into two interest rates caps totalling £20million, which had a fair value at the balance sheet date of £nil.

Obligations under finance leases were discharged during 2009.

Notes to the Accounts

17. Deferred Capital Grants

	Funding Council £m	Consolidated Other Grants £m	Total £m
At 1 August 2009			
Buildings	82.6	33.2	115.8
Equipment	24.4	8.9	33.3
Total	107.0	42.1	149.1
Grants Received			
Buildings	12.9	0.7	13.6
Equipment	6.7	2.7	9.4
Total	19.6	3.4	23.0
Released to Income and Expenditure			
Buildings	(2.4)	(0.5)	(2.9)
Equipment	(5.6)	(2.8)	(8.4)
Total	(8.0)	(3.3)	(11.3)
At 31 July 2010			
Buildings	93.1	33.4	126.5
Equipment	25.5	8.8	34.3
Total	118.6	42.2	160.8

	Funding Council £m	University Other Grants £m	Total £m
At 1 August 2009			
Buildings	82.6	33.2	115.8
Equipment	24.4	8.1	32.5
Total	107.0	41.3	148.3
Grants Received			
Buildings	12.9	0.7	13.6
Equipment	6.7	2.7	9.4
Total	19.6	3.4	23.0
Released to Income and Expenditure			
Buildings	(2.4)	(0.5)	(2.9)
Equipment	(5.6)	(2.6)	(8.2)
Total	(8.0)	(3.1)	(11.1)
At 31 July 2010			
Buildings	93.1	33.4	126.5
Equipment	25.5	8.2	33.7
Total	118.6	41.6	160.2

Notes to the Accounts

18. Endowments

	Consolidated and University		
	Restricted Expendable £m	Restricted Permanent £m	Restricted Total £m
Balance at 1 August 2009	1.9	24.5	26.4
Additions	0.2	0.0	0.2
Appreciation of Endowment Asset Investments	0.0	2.9	2.9
Income for the Year	0.0	0.9	0.9
Expenditure for the Year	(0.4)	(0.8)	(1.2)
Balance at 31 July 2010	1.7	27.5	29.2
Represented by:			
Capital value	1.7	24.3	26.0
Accumulated income	0.0	3.2	3.2
	1.7	27.5	29.2

The University has no unrestricted permanent endowments.

19. Revaluation Reserve

	Consolidated and University £m
Balance at 1 August 2009	2.3
Realisation of investment property revaluation gains of previous years	0.0
Unrealised surplus on revaluation of investment properties	0.2
Balance at 31 July 2010	2.5

20. General Reserve

	Consolidated £m	University £m
Balance at 1 August 2009	133.5	128.2
Transfer from Surplus for the Year	37.4	32.2
Transfer to Pension Reserve	(2.3)	(2.3)
Exchange movements	0.6	0.0
Balance at 31 July 2010	169.2	158.1

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 profit for the year before share of associate's profits and exceptional items was £32.4m (2009 - £10.8m surplus).

Notes to the Accounts

21. Operating lease commitments

Operating lease commitments in respect of equipment for the forthcoming financial year, on leases expiring:	Consolidated 2010 £m	Consolidated 2009 £m	University 2010 £m	University 2009 £m
Within one year	0.2	0.0	0.2	0.0
Between two and five years	0.1	0.4	0.1	0.4
Over five years	0.0	0.0	0.0	0.0
	0.3	0.4	0.3	0.4

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

22. Capital Commitments

	Consolidated 2010 £m	Consolidated 2009 £m	University 2010 £m	University 2009 £m
Commitments contracted at 31 July	37.8	6.5	37.8	6.5

The University has commenced in 2009/10 the construction of five new teaching and research buildings due for completion in 2011 and has commitments to purchase land as part of its ongoing development strategy.

23. Related party transactions

The University of Nottingham owns a 29.1% 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 campuses for periods of up to 3 years. In addition certain costs incurred by the University are rechargeable between each associate and the University in accordance with signed agreements.

In the prior year the University extended a loan of £1.5m to the University of Nottingham, Malaysia at an interest rate of cost of funds to the University of Nottingham plus 1% to support effective working capital management. The loan has been repaid.

	2010 Malaysia £000	2010 China £000	2009 Malaysia £000	2009 China £000
Net charges by the University:				
Costs	(24)	347	(61)	452
Management fee	1,205	2,111	1,193	1,692
Owed to the University at 31 July	588	2,473	3,147	1,924

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

Notes to the Accounts

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

	2010 £m	2009 £m
Surplus for the Year	37.2	12.8
Depreciation (Note 10)	20.0	18.9
Profit on Disposal of Fixed Assets	0.0	(0.6)
Impairment of Investments	1.1	0.2
Lease Premium	(6.0)	0.0
Share of Profits in Associated Companies	(1.2)	(1.2)
Deferred Capital Grants Released to Income (Note 17)	(11.3)	(10.8)
Investment Income (Note 5)	(1.0)	(1.2)
Interest Payable (Note 8)	2.8	3.2
Net Income Retained from Specific Endowments	0.2	0.0
Increase in Stocks	(0.1)	(0.2)
Increase in Debtors	(8.4)	(1.7)
Increase in Creditors	13.0	20.6
Foreign Exchange Movements	(0.1)	0.0
Other Non Cash Movements	0.0	(0.3)
Net Cash Inflow from Operating Activities	46.2	39.7

25. Returns On Investments And Servicing Of Finance

	2010 £m	2009 £m
Income from Endowments	0.9	1.0
Other Interest Received	0.2	0.3
Interest Paid	(2.7)	(3.1)
Net Cash Outflow from Returns on Investments and Servicing of Finance	(1.6)	(1.8)

26. Capital Expenditure And Financial Investment

	2010 £m	2009 £m
Payments to Acquire Tangible Assets	(37.3)	(32.0)
Payments to Acquire Endowment Asset Investments (Note 13)	(4.0)	(4.3)
Total Payments to Acquire Fixed and Endowment Asset Investments	(41.3)	(36.3)
Receipts from Sales of Endowment Assets (Note 13)	3.7	4.4
Receipts from Sales of Fixed Assets	0.0	1.2
Receipts from Lease Premium	6.0	0.0
Deferred Capital Grants Received (Note 17)	23.0	12.7
Endowments Received (Note 18)	0.2	0.4
Net Cash Outflow from Capital Expenditure and Financial Investment	(8.4)	(17.6)

Notes to the Accounts

27. Analysis Of Changes In Consolidated Financing During The Year

	Mortgages and Loans £m
Balances at 1 August 2009	48.4
New Loans	181.3
Capital Repayments	(221.5)
Foreign exchange translation differences	0.8
Net Amount Repaid in Year	(39.4)
Balances at 31 July 2010	9.0

28. Analysis Of Changes In Net Debt

	At 1 August 2009 £m	Cash Flows £m	Other Changes £m	At 31 July 2010 £m
Cash				
Endowment Asset Investments (Note 13)	5.8	(0.3)	0.0	5.5
Cash at Bank and in hand/(Bank overdraft)	4.0	(6.2)	0.0	(2.2)
	9.8	(6.5)	0.0	3.3
Short Term Investments	2.9	2.5	0.0	5.4
Debt due within one year	0.0	(3.2)	0.0	(3.2)
Debt due after one year	(48.4)	43.4	(0.8)	(5.8)
	(35.7)	36.2	(0.8)	(0.3)

Notes to the Accounts

29. Pension Schemes

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

USS

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The appointment of directors to the board of the trustee is determined by the company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union of whom at least one must be a USS pensioner member; one is appointed by the Higher Education Funding Councils; and a minimum of two and a maximum of four are co-opted directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

Because of the mutual nature of the scheme, the institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2008. This was the first valuation for USS under the new scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions.

The valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

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

Standard mortality tables were used as follows:

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

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further small improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

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

At the valuation date, the value of the assets of the scheme was £28,842.6 million and the value of the scheme's technical provisions was £28,135.3 million indicating a surplus of £707.3 million. The assets therefore were sufficient to cover 103% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 71%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 107% funded; on a buy-out basis (i.e. assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 79% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using an AA bond discount rate of 6.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2008 was 104%.

29. Pension Schemes continued

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

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

Since 31 March 2008 global investment markets have continued to fall and at 31 March 2009 the actuary has estimated that the funding level under the new scheme specific funding regime had fallen from 103% to 74%. This estimate is based on the funding level at 31 March 2008, adjusted to reflect the fund's actual investment performance over the year and changes in market conditions (market conditions affect both the valuation rate of interest and also the inflation assumption which in turn impacts on the salary and pension increase assumptions).

On the FRS17 basis, using an AA bond discount rate of 7.1% per annum based on post yields, the actuary estimated that the funding level at 31 March 2009 was 86%. An estimate of the funding level measured on a buy out basis at that date was approximately 46%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principle assumptions used to measure the scheme liabilities are set out below:

Assumption	Change in assumption	Impact on scheme liabilities
Valuation rate of interest	Increase/decrease by 0.5%	Decrease/increase by £2.2 billion
Rate of pension increases	Increase/decrease by 0.5%	Increase/decrease by £1.5 billion
Rate of salary growth	Increase/decrease by 0.5%	Increase/decrease by £0.7 billion
Rate of mortality	More prudent assumption (move to long cohort future improvements from the medium cohort adopted at the valuation)	Increase by £1.6 billion

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

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set are designed to give the fund a bias towards equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be possible to select investments producing income flows broadly similar to the estimated liability cash flows.

However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, the trustee has agreed to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding to take investment risk relative to the liabilities, the trustee receives advice from its investment consultant and the scheme actuary, and considers the views of the employers. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and the strength of covenant of the employers, enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate. The actuary has confirmed that the scheme's cash flow is likely to remain positive for the next ten years or more.

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

Notes to the Accounts

29. Pension Schemes continued

CPAS

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

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

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

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

	2010 £m	2009 £m
Contributions to USS	23.5	20.0
Charge to I&E account re CPAS	2.5	1.6
Contributions to Other Pension Schemes	1.8	1.5
Total Pensions Cost (Note 6)	27.8	23.1

CPAS - FRS17 Disclosure

The amounts recognised in the balance sheet are as follows:	2010 £m	2009 £m
Present value of funded obligations	(152.2)	(134.4)
Fair value of Plan assets	100.6	82.4
Deficit	(51.6)	(52.0)

The amounts recognised in staff costs within the operating surplus are as follows:	2010 £m	2009 £m
Current service cost	2.9	3.0
Gains on curtailments, settlements and business combinations.	0.0	(0.8)
Total operating charge	2.9	2.2

The amount credited to interest was as follows:	2010 £m	2009 £m
Interest on obligation	8.0	7.9
Expected return on plan assets	(5.7)	(6.6)
Net return (note 8)	2.3	1.3

Notes to the Accounts

29. Pension Schemes – continued

The amount recognised in the statement of total recognised gains and losses (STRGL) was as follows:	2010 £m	2009 £m
Actual return less expected return on pension scheme assets	9.0	(14.8)
Experience gains and losses	(11.0)	(8.4)
Actuarial loss recognised in STRGL	(2.0)	(23.2)
Actual return on plan assets	14.7	(8.1)

Changes in the present value of the defined benefit obligation are as follows:	2010 £m	2009 £m
Opening defined benefit obligation	134.5	121.0
Service cost	2.9	3.0
Interest cost	8.0	7.9
Plan participants' contributions	0.7	0.7
Actuarial losses	11.0	8.4
Gains on curtailments	0.0	(0.3)
Liabilities extinguished on settlements	0.0	(0.8)
Benefits paid	(4.9)	(5.5)
Closing defined benefit obligation	152.2	134.4

Changes in the fair value of plan assets are as follows:	2010 £m	2009 £m
Opening fair value of plan assets	82.4	90.7
Expected return on plan assets	5.8	6.6
Actuarial gains/(losses)	9.0	(14.8)
Assets distributed on settlements	0.0	(0.3)
Employer contribution	7.5	5.0
Plan participants' contributions	0.7	0.7
Benefits paid	(4.9)	(5.5)
Fair value of plan assets at end of period	100.5	82.4

The major categories of plan assets as a percentage of total plan assets are as follows:	2010	2009
Equities	55%	66%
Bonds	34%	28%
Property	6%	3%
Cash	5%	4%

Principal actuarial assumptions at the balance sheet date (expressed as weighted averages):	2010	2009
Discount rate at end of year	5.40%	6.00%
Expected return on plan assets at end of year	5.95%	6.85%
Future salary increases	3.90%	4.10%
Future pension increases	3.10%	3.20%
Proportion of employees opting for early retirement	50.00%	50.00%
Proportion of employees commuting pension for cash	100.00%	100.00%
Future expected lifetime of pensioner at age 65:		
Male:	21.1	21.0
Female:	23.4	23.3

29. Pension Schemes – continued

Amounts for the current and previous four periods are as follows:	2010 £m	2009 £m	2008 £m	2007 £m	2006 £m
Defined benefit obligation	(152.2)	(134.4)	(121.0)	(122.4)	(117.7)
Plan assets	100.6	82.4	90.7	95.9	84.6
Deficit	(51.6)	(52.0)	(30.3)	(26.5)	(33.1)
Experience adjustments on plan liabilities	(11.0)	(8.5)	8.3	1.8	(10.6)
Experience adjustments on plan assets	9.0	(14.7)	(14.1)	3.5	4.4

CRSP

Following the closure of CPAS to new entrants on 1 September 2006, the University engaged Legal & General to operate a defined contribution pension scheme for the benefit of members. The Contributory Retirement Savings Plan (CRSP) is designed as the primary pension plan for members of staff who are not already in another pension scheme, but all members of staff can join CRSP. The University makes contributions equivalent to twice the employee's contribution, up to a maximum of 10%.
As at 31 July 2010 the University owed £85k in respect of contributions to the scheme (2009: £46k).

30. 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.

	2010 £m	2009 £m
Balance at 1 August	0.0	0.1
Funding Council Grants	0.5	0.5
	0.5	0.6
Disbursed to Students	(0.5)	(0.6)
Balance Unspent at 31 July	0.0	0.0

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