The University of Nottingham

Global Assets

Financial Statements for the year ended 31 July 2007

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The Council

As at 31 July 2007

President:	K Hamill
Vice-President:	M McNamara

Members ex-Officio

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

*university employee

Lay members appointed by the Council

D Garnham
A Greenwood
I Lindsey OBE
J Mills
Sir Robert Phillis
N Puri
B Rossiter
S Russell
M Suthers OBE
A Wilkinson

Academic members appointed by the Senate

Dr Li Bai
Dr B Bonev
Professor C Ennew
Professor J Hippisley-Cox
Dr E Lester
Professor R McCorquodale
Professor C Watkins

Lay members appointed by the University Association

Professor B R Clayton
M S Curry

Appointed by the Union of Students

D Willey
B Pringle

Senior officers:

The Registrar:	Dr P Greatrix (Secretary to Council)
Director of Finance:	M Wynne-Jones

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A message from the Vice-Chancellor

Being declared Britain's 'University of the Year' (Times Higher Awards 2006/7) was an exhilarating highlight of the twelve months reflected in these financial statements.

THE UNIVERSITY OF Nottingham was praised for its "spectacular achievement". It continued to rise up the main world university rankings, and our campuses attracted an increased number of applicants. We also gained exciting new infrastructure and recruited significant intellectual talent, and attracted record levels of investment in our world-leading research.

Ours is a comprehensive international university, which prizes its breadth of expertise across disciplines. It is also an enterprising institution. In 2007 the British government, under our new Prime Minister, created a Department for Innovation, Universities and Skills. A dedicated place in Cabinet signals the importance of higher education to progress and prosperity in modern Britain.

The university was proud in 2007 to receive the country's most prestigious business accolade for a second year in succession. The Queen's Award for Enterprise in the category of Innovation was presented to our exceptional School of Pharmacy. The award recognises that the School is "enhancing significantly the development of new medicines." We were delighted that Molecular Profiles Limited – a 'spin-out' company of this university – was also honoured with this award.

The new Minister of State for Trade Promotion, appointed to the Department of Business, Enterprise and Regulatory Reform, and to the Foreign and Commonwealth Office, described The University of Nottingham as "a pioneer". Lord Jones of Birmingham recognized that our contribution to the development of knowledge-based economies is every bit as strong as our record for high quality research and teaching. In Nottingham UK, some of the new investments this year included the Centre for Excellence in Customised Assembly, the Centre for Biomolecular Sciences, a new Centre for Healthcare Associated Infections, and the Nottingham Nanotechnology and Nanoscience Centre. Important schemes designed further to enhance the student experience at Nottingham included the transformation of student service and social facilities in the Portland Building, at University Park Campus.

We invest seriously and with commitment in the communities of which we are part. Our co-sponsorship of an academy for the Bilborough area of Nottingham was welcomed by the Secretary of State for Children, Schools and Families. The project, generously supported by our distinguished partner Mr David Samworth, will deliver a transformed learning environment to young people whose potential has for too long been limited by the social and economic circumstances into which they were born. A leading international university, just a few miles away, will no longer be a world apart.

Of course many of the longer-term challenges facing British universities will need to be addressed with vigour in the year ahead. The introduction of tuition fees coupled with generous bursaries has neither dented demand nor led to exclusion. Further reform of university finances will allow British universities to keep pace with the global elite and provide an attractive and natural home to the world's leading research and teaching talent.

In the year ahead we will unveil an ambitious plan to gather some of the resources and support we will need to ensure that our university can maintain its position of international distinction, and become the preferred destination for the 'stars' of tomorrow.

I enter my twentieth year of service as Vice-Chancellor with a deep appreciation of colleagues and students at The University of Nottingham. Our staff and students do fantastic things in amazing places. Global Review 2007 and this document – Global Assets 2007, which accompanies it – will allow you to experience just some of the flavour of those journeys and achievements in Malaysia, China, Nottingham and worldwide.

Professor Sir Colin Campbell

Treasurer's report

Scope of the Financial Statements

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

Financial highlights

	2007 £m	2006 £m	Change %
Funding council grants	117	108	8
Academic fees and support grants	112	102	10
Research grants and contracts	78	66	18
Other operating income	74	69	7
Endowment income and interest	1	1	
Total income	**382**	**346**	**10**
Operating deficit for the year	**(1)**	**(8)**	
Net deficit for the year	**(-)**	**(8)**	
Total net assets	**256**	**227**	

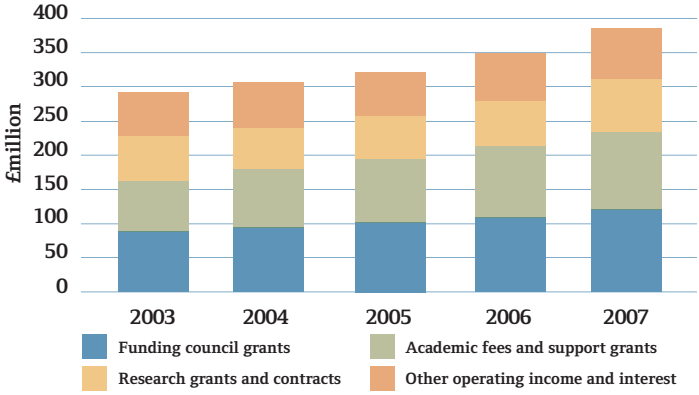
Business review

The university's income increased by 10% to £382 million. This reflected the continued growth in research and student numbers, including the first in-take at the new Vet school at the Sutton Bonington campus and the impact of the increase in tuition fees for first year HEU undergraduates to £3000, which has allowed the university to further widen access in accordance with Government policy. The investment into research staff and infrastructure has been rewarded with record awards (£125 million) and income (£78 million) in 2007.

The overall result was a net deficit of £0.3 million compared to £8 million deficit last year. The operating deficit for 2007 is better than originally budgeted and arises from the continued revenue investment into high quality academic and research staff and the related infrastructure, out of the proceeds from the sale of property in 2003. The benefits and rewards from the investment will lead to a return to surplus next year.

Income analysis

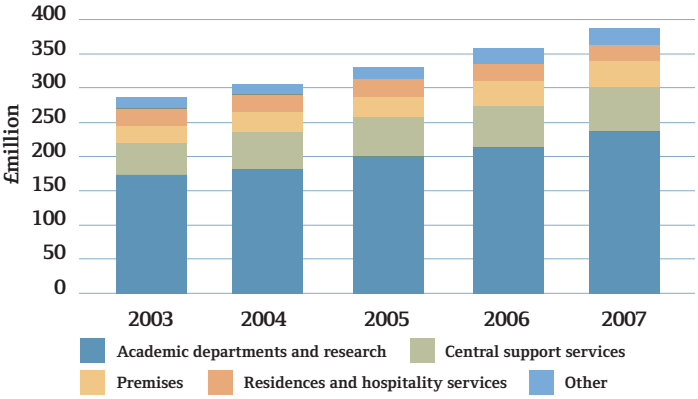
Growth in income has been consistent across all categories reaching over £380 million. The largest growth being in research. The research awards won to date, the full implementation of increased tuition fees and the in-built growth from previous bids for additional students, including the Vet School mean income will continue to grow over the coming years.



Treasurer's report *continued*

Expenditure analysis

Academic departments and Research represent over 60% of the university's expenditure, growth in these costs is consistent with the rise in income.



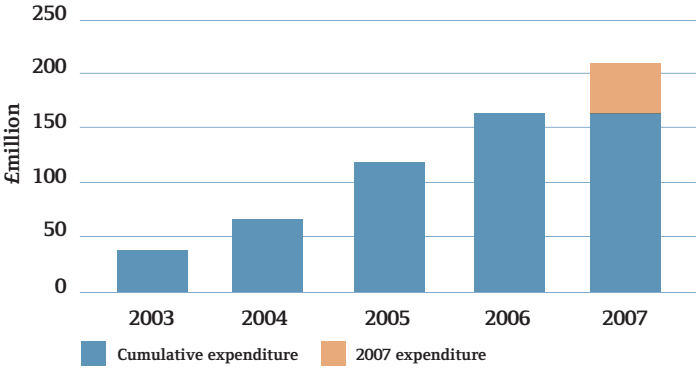
Cumulative capital expenditure

The university has invested consistently in its teaching and research infrastructure and student facilities, averaging £42 million per annum, with £46 million having been invested in 2007.

The university invested £46 million in its infrastructure and estate. Major capital projects in the year include the continued development of the Veterinary School at Sutton Bonington, which registered its first students in 2006, and phase 2 of the Biomolecular Sciences research building at University Park plus refurbishment of the new King's Meadow Campus purchased last year and continued work on projects funded by the Science Research Investment Fund (SRIF). £3 million has been spent on student specific infrastructure projects, namely a new rehearsal hall for music, transforming hall bars into continental cafes and a major refurbishment of the sports centre at Sutton Bonington.

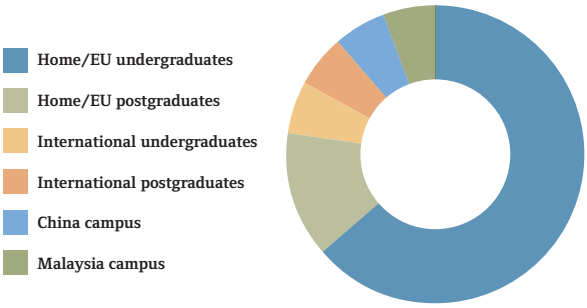
This expenditure was funded by £30 million of capital grants, £3m from asset sales, with the balance from working capital.

At the 31 July 2007 the university had loans of £56 million off-set by £7 million of short-term deposits, giving a net debt of £49 million compared to £52 million last year. The university has an agreed facility to borrow up to £125 million.



Student analysis

Student growth reflects the investment in the core infrastructure both at the campuses in the UK and overseas in Malaysia and China. Total student numbers now are 34,000 with over 20% being post graduate students across all campuses.



Employment of disabled people

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

Employee involvement

The university places considerable value on the involvement of its employees and on good communication with them. Staff are encouraged to participate in formal and informal consultation at university and school level, sometimes through the membership of formal Committees. The university has a Staff and Education Development Unit that is responsible for providing technical and general training to all levels of staff.

Creditor payment policy

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

Compliance

The university is committed to following best practice in all aspects of corporate governance. This year's statement appears on page 8.

Conclusion

The university's significant investment in its staff and infrastructure has provided a strong base to meet the challenges ahead. The university expects to return to surplus in 2008 as the benefits from the investments are delivered.

Nazim Karimjee, Treasurer
30 October 2007

Governance

Responsibilities of the University's Council and structure of corporate governance

THE UNIVERSITY IS a corporation formed by Royal Charter with charitable status. Following changes to Charter and Statutes approved by the Privy Council in 1999, the Council is the university's governing body. Amongst other matters, it is responsible for the administration and management of the affairs of the university and is required to present audited financial statements for each financial year.

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

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

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

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

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

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

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

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

The Council of the University comprises The Chancellor, Vice-Chancellor, up to 18 lay, 2 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.

The Finance Committee, which comprises 12 members of which 7 are lay members and 1 the Students' Union President, inter alia recommends to Council the university's annual revenue and capital budgets and monitors performance in relation to the approved budgets. The Committee also reviews major investment decisions prior to final approval by Council.

The Strategy and Planning Committee, which comprises 15 members of which 8 are lay members, advises the executive and Council on the university's overall objectives and priorities and the strategies and policies to achieve them. The Council Membership Committee considers nominations for vacancies in the Council membership under the relevant Statute.

The Audit Committee comprises 6 lay members and meets at least three times annually, with the External Auditors, to discuss audit findings, and with the Internal Auditors, to consider internal audit reports and recommendations for the improvement of the university's systems of risk management, internal control and governance, together with management's response and implementation plans. It also receives and considers reports from HEFCE as they affect the university's business. It considers the form of the annual report on Corporate Governance together with the accounting policies and reviews the implementation of risk management within the university. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee, and the Committee meets with the External and Internal Auditors on their own for independent discussions.

The Remuneration Committee, which comprises 4 senior lay officers and the Vice-Chancellor determines the salaries of Professors and Senior Officers of the university. The salary of the Vice-Chancellor is determined by the lay officers of the Committee.

The Equality & Diversity Committee (which reports also to Senate) is responsible for defining the overall Equality & Diversity goals of the university, taking account of legal obligations and best practice. It is chaired by a lay member with a further lay member, Students' Union representative and 6 academic members.

The Safety Committee comprises 15 representatives from academic schools and central support service departments and 2 members from the Students' Union. Its terms of reference are to formulate safety and environmental policies so as to ensure that the university meets all legislative requirements and best practice standards, and promote and monitor effective implementation of those policies.

Day to day management of the university is via Management Board, comprising the Vice-Chancellor, 6 Pro- Vice-Chancellors, the Chief Financial Officer and the Registrar. Management Board acts as the executive committee of the Strategy and Planning Committee and as an advisory committee to the Vice-Chancellor, and normally meets weekly to consider the strategic and financial direction of the university. The Vice-Chancellor is the principal academic and administrative officer of the university. The Pro-Vice-Chancellors have specific responsibilities for major policy areas, whilst responsibility for administrative services is shared between the Registrar and the Chief Financial Officer. Council and the Strategy and Planning Committee are kept informed of the key decisions and discussions of Management Board via the Vice-Chancellor's statement, which is also given to the university's Senate meetings.

Senate, which comprises senior academics across the university, meets 4 times a year. Inter alia, it has the power, subject to the Statutes and Ordinances, to direct and regulate the instruction and teaching within the university and the examinations held and to promote research within the university and to require reports from time to time of such research.

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

Governance *continued*

Statement of internal control

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

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

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

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

- Council meets 5 times a year to consider the plans and strategic direction for the institution. It is advised by its key Committees, noted above.
- The Audit Committee has been requested to provide oversight of risk management. This provides a formalised reporting and appraisal mechanism in addition to management reports noted above.
- The Audit Committee receives regular reports from the Head of Internal Audit, together with recommendations for improvement. This includes the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the institution's systems of risk management, internal control and governance.
- An organisation-wide Risk Register is maintained and is available on the university intranet. Consultation is held across the university to assist in identifying risks and keep up to date the Risk Register. A full review by the Management Board was undertaken during the year. In addition, school and department plans identify risks at the operational level.
- Key performance indicators and monthly management accounts are presented at each Finance Committee.
- The annual budget, forward estimates and major investment proposals are approved by both Finance Committee and Council, following detailed review, challenge and assessment by the university's Management Board.

The review of the effectiveness of the system of internal control is informed by the Internal Audit Service, which operates to standards defined in the HEFCE Code of Practice and which was last reviewed for effectiveness by the HEFCE Assurance Service in March 2004.

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

Preparation of the Financial Statements

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

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

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

The Council has taken reasonable steps to:

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

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

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

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

Independent auditors' report to the Council of The University of Nottingham

WE HAVE AUDITED the financial statements of The University of Nottingham for the year ended 31 July 2007 which comprise the statement of principal accounting policies, the consolidated income and expenditure account, the note of historical cost surpluses and deficits, the consolidated balance sheet, the university balance sheet, the consolidated cash flow statement, the statement of consolidated total recognised gains and losses, the reconciliation of net cash to movement in net debt and the related notes 1 to 31. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandum dated July 2006. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Members of the Council and auditors

As described in the Responsibilities of the Council, the Members of the Council are responsible for the preparation of the financial statements in accordance with the university's statute, the Statement of Recommended Practice on Accounting for Further and Higher Education and other applicable United Kingdom law and accounting standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom 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 on Accounting for Further and Higher Education. We also report whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by The University of Nottingham have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

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

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

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing 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 University Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the university's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion:

(a) the financial statements give a true and fair view of the state of affairs of the university and the Group as at 31 July 2007 and of the deficit of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions;

(b) in all material respects income from the Higher Education Funding Council for England, and the Training and Development Agency, grants and income for specific purposes and from other restricted funds administered by the university have been applied only for the purposes for which they were received; and

(c) in all material respects income has been applied in accordance with the university's statutes and, where appropriate, with the Financial Memorandum, dated July 2006 with the Higher Education Funding Council for England.

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham, UK
31 October 2007

Statement of principal accounting policies

1. Accounting convention

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

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

2. Basis of consolidation

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

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

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

3. Recognition of income

Income from specific endowments and donations and research grants and contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. Unspent endowments are shown as endowment reserves on the balance sheet, whilst unspent donations are classed as deferred income. All income from other sources is credited to the income and expenditure account on a receivable basis.

4. Pension schemes

The two principal pension schemes for the university's staff are the Universities Superannuation Scheme (USS) and the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). The schemes are defined benefit schemes, which are externally funded and contracted out of the State 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. The costs associated with USS are accounted for on the basis of charging the cost of providing pensions over the period during which the university benefits from the employees' services. A small number of staff remain in other pension schemes.

For CPAS the principles of Financial Reporting Standard No 17 have been followed: The expected return on pension scheme assets less the interest on pension scheme liabilities is shown as a finance cost within the income and expenditure account. Actuarial gains and losses arising in the period from the difference between actual and expected returns on pension scheme assets, experience gains and losses on pension scheme liabilities and the effects of changes in demographics and financial assumptions are included in the statement of total recognised gains and losses. Recoverable pension scheme surpluses and pension scheme deficits are recognised in full and included in the balance sheet.

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 of up to 100 years and leasehold land over the life of the lease.

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

Assets in the course of construction are not depreciated.

8. Equipment

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

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

Telephone equipment – 7 years.

Motor vehicles and other general equipment – 3-10 years.

Equipment acquired for specific research projects – project life (generally 3 years).

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

9. Investment properties

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

10. Investments

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

Endowment asset investments are included in the balance sheet at market value. Current asset investments are included at the lower of cost and net realisable value.

11. Stocks

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

12. Liquid resources

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

13. Maintenance of premises

The university has a five year rolling maintenance plan, which is reviewed on an annual basis. The costs of maintenance are charged to the income and expenditure account as incurred. Expenditure that extends the useful life of an asset or enhances 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 2007

	Note	2007 £m	2006 £m
Income			
Funding council grants	1	117.0	107.8
Academic fees and support grants	2	112.4	101.6
Research grants and contracts	3	78.2	66.1
Other operating income	4	73.6	68.9
Endowment income and interest	5	1.2	1.5
Total income		382.4	345.9
Expenditure			
Staff costs	6	220.1	200.0
Depreciation	10	12.5	10.9
Other operating expenses	7	147.2	139.7
Interest payable	8	3.5	3.3
Total expenditure	9	383.3	353.9
Deficit for the year		**(0.9)**	**(8.0)**
Share of losses in associated companies	11	(0.1)	(0.6)
Surplus on disposal of property	29	0.7	0.2
Net deficit for year retained within general reserves	**19**	**(0.3)**	**(8.4)**

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

Note of historical cost surpluses and deficits			
Deficit for the year		(0.3)	(8.4)
Realisation of investment property revaluation gains of previous years	18	3.0	0.2
Historical cost surplus/(deficit) for the year		**2.7**	**(8.2)**

Statement of consolidated total recognised gains and losses

For the year ended 31 July 2007

	Note	2007 £m	2006 £m
Net deficit for year	19	(0.3)	(8.4)
Appreciation of endowment asset investments	17	1.6	2.9
Net movement in retained endowment income	17	0.4	0.2
Transfer from endowments	17	0.1	0.1
Unrealised (deficit)/surplus on revaluation of investment properties	18	(0.4)	1.8
Restatement of share of associates		(0.2)	(0.2)
Actuarial gain/(loss) on pension scheme	30	5.3	(6.2)
Total recognised gains/(losses) relating to the year		**6.5**	**(9.8)**

Balance sheet

As at 31 July 2007

		Consolidated		University	
		2007	2006	2007	2006
Fixed assets	**Note**	**£m**	**£m**	**£m**	**£m**
Tangible assets	10	345.7	313.0	344.6	312.1
Investments	11	10.4	10.8	7.8	7.9
		356.1	**323.8**	**352.4**	**320.0**
Investment properties	**12**	**3.7**	**6.9**	**3.7**	**6.9**
Endowment asset investments	**12**	**30.5**	**28.4**	**30.5**	**28.4**
Current assets					
Stocks		1.0	1.1	0.9	1.0
Debtors	13	49.3	51.8	50.8	53.8
Short term investments		4.6	7.7	3.9	7.3
Cash at bank and in hand		2.6	4.1	2.4	2.1
		57.6	**64.7**	**58.0**	**64.2**
Creditors: amounts falling due within one year	**14**	**(108.2)**	**(98.4)**	**(106.8)**	**(97.9)**
Net current liabilities		**(50.6)**	**(33.7)**	**(48.8)**	**(33.7)**
Total assets less current liabilities		**339.7**	**325.4**	**337.8**	**321.6**
Creditors: amounts falling due after more than one year	**15**	**(57.1)**	**(65.3)**	**(58.0)**	**(64.3)**
Net assets excluding pensions liability		**282.6**	**260.1**	**279.8**	**257.3**
Net pensions liability	**30**	**(26.5)**	**(33.1)**	**(26.5)**	**(33.1)**
Total net assets including pensions liability		**256.1**	**227.0**	**253.3**	**224.2**
Deferred capital grants	16	134.8	112.2	134.8	112.2
Specific endowments	17	30.5	28.4	30.5	28.4
Reserves					
Revaluation	18	3.3	6.7	3.3	6.7
Pensions	30	(26.5)	(33.1)	(26.5)	(33.1)
General	19	114.0	112.8	111.2	110.0
		90.8	**86.4**	**88.0**	**83.6**
Total funds		**256.1**	**227.0**	**253.3**	**224.2**

The Financial Statements on pages 16 to 33 were approved by Council on 30 October 2007 and signed on its behalf by:

Professor Sir Colin M Campbell
Vice-Chancellor

Nazim A Karimjee
Treasurer

Martin Wynne-Jones
Director of Finance

Consolidated cash flow statement

For the year ended 31 July 2007

	Note	2007 £m	2006 £m
Net cash inflow from operating activities	23	15.2	16.6
Returns on investments and servicing of finance	24	(2.3)	(1.1)
Capital expenditure and financial investment	25	(8.1)	(15.8)
Cash inflow/(outflow) before use of liquid resources and short-term investments		4.8	(0.3)
Acquisitions and disposals	26	0.0	(3.0)
Management of liquid resources		3.2	0.4
Financing	27	(8.2)	4.8
(Decrease)/increase in cash	**28**	**(0.2)**	**1.9**

Reconciliation of net cash flow to movement in net debt

	Note	2007 £m	2006 £m
(Decrease)/increase in cash in the period		(0.2)	1.9
Decrease in short term investments		(3.2)	(0.4)
Repayment of debt	**15**	127.2	28.2
New loans	**15**	(119.0)	(33.0)
Change in net debt resulting from cash flows		4.8	(3.3)
Effect of foreign exchange		0.2	0.1
Change in net debt		5.0	(3.2)
Net debt at 1 August		(51.3)	(48.1)
Net debt at 31 July	**28**	**(46.3)**	**(51.3)**

Notes to the accounts

1. Funding council grants	HEFCE 2007 £m	TTA 2007 £m	Total 2007 £m	Total 2006 £m
Recurrent grants	103.2	2.0	105.2	97.4
Specific grants	6.5	0.9	7.4	7.1
Deferred capital grants released in year				
Buildings (Note 16)	1.8	0.0	1.8	1.4
Equipment (Note 16)	2.6	0.0	2.6	1.9
Total from funding councils	114.1	2.9	117.0	107.8

2. Academic fees and support grants	2007 £m	2006 £m
Full-time credit bearing courses – home fees	33.0	23.9
Full-time credit bearing courses – international fees	50.4	46.2
Part-time credit bearing courses	2.2	2.4
Other teaching contracts	21.7	21.3
Non credit bearing courses and other fees	5.1	7.8
	112.4	101.6

3. Research grants and contracts	2007 £m	2006 £m
Research councils	34.4	26.7
UK based charities	10.1	9.9
Other grants and contracts	32.6	28.6
Released from deferred capital grants (Note 16)	1.1	0.9
	78.2	66.1

4. Other operating income	2007 £m	2006 £m
Residences, catering and conferences	30.2	30.2
Other services rendered	21.1	18.8
Health authorities	7.6	7.3
Released from deferred capital grants (Note 16)	0.4	0.2
Other income	14.3	12.4
	73.6	68.9

5. Endowment income and interest	2007 £m	2006 £m
Transferred from specific endowments (Note 17)	0.7	0.6
Income from general endowment asset investments (Note 17)	0.0	0.4
Other interest receivable	0.5	0.5
	1.2	1.5

Notes to the accounts *continued*

6. Staff

	2007 £m	2006 £m
Staff costs:		
Gross pay	184.5	167.2
Social security costs	15.3	13.8
Other pension costs (Note 30)	20.3	19.0
	220.1	200.0

	2007 £000	2006 £000
Emoluments of the Vice-Chancellor	355	242

The emoluments of the Vice Chancellor are shown on the same basis as for higher paid staff. They include £46,897 (2006 - £nil) in lieu of employers pension contributions which are no longer paid as maximum total contributions into USS for the Vice Chancellor have been made. Consequently the university made no pension contributions to USS in respect of the Vice Chancellor in the current year. In the previous year they were paid at the same rates as for other academic staff and amounted to £39,589.

	Number	Number
Average staff numbers by major category:		
Teaching and research	2,770	2,595
Technical	569	543
Administrative	1,671	1,572
Other, including clerical and manual	776	830
	5,786	5,540

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

	Number	Number
£70,000 – £79,999	117	73
£80,000 – £89,999	54	36
£90,000 – £99,999	29	23
£100,000 – £109,999	16	17
£110,000 – £119,999	6	10
£120,000 – £129,999	13	8
£130,000 – £139,999	13	15
£140,000 – £149,999	8	3
£150,000 – £159,999	7	11
£160,000 – £169,999	6	6
£170,000 – £179,999	8	4
£180,000 – £189,999	3	4
£190,000 – £199,999	4	1
£200,000 – £209,999	1	1
£240,000 – £249,000	0	1

7. Other operating expenses

	2007 £m	2006 £m
Purchase, hire and repair of equipment	16.2	14.6
Consumables and laboratory expenditure	14.3	13.5
Published materials	4.7	4.5
Travel and subsistence	9.1	7.5
Professional and other fees	25.1	22.5
Fellowships, scholarships and prizes	22.9	23.3
Catering supplies	5.0	4.8
Repairs and general maintenance	13.1	12.4
Heat, light, water and power	9.0	10.4
Rent, rates and insurance	5.6	5.0
Grants to University of Nottingham Students Union	1.5	1.4
Auditors' remuneration	0.2	0.1
Training	1.9	1.9
Advertising	2.2	1.9
Impairment of investments	0.2	1.1
Other expenses	16.2	14.8
	147.2	139.7

Auditors' Remuneration includes £75,000 in respect of audit services for the group, of which £54,000 relates to the university, and £90,000 in respect of non audit services. (The 2006 expenditure was £70,000, £52,000 and £30,000 respectively).

8. Interest payable

	2007 £m	2006 £m
Loans not wholly repayable within five years	2.8	2.5
Finance leases	0.1	0.1
Finance costs for pension scheme	0.6	0.7
	3.5	3.3

9. Analysis of 2007 expenditure by activity

	Staff costs £m	Dep'n £m	Other operating expenses £m	Interest payable £m	Total £m
Academic departments	136.5	1.2	37.8	0.0	175.5
Research grants and contracts	32.6	1.1	26.5	0.0	60.2
Total teaching and research	169.1	2.3	64.3	0.0	235.7
Academic services	12.5	2.4	11.0	0.0	25.9
Administration	17.6	0.0	19.3	0.0	36.9
Premises	7.1	6.9	23.7	0.0	37.7
Residences, catering and conferences	7.9	0.7	14.4	1.0	24.0
Other expenses	5.9	0.2	14.5	2.5	23.1
Total per income and expenditure account	220.1	12.5	147.2	3.5	383.3

Notes to the accounts *continued*

10. Tangible assets

	Consolidated					
	Land and buildings				Assets in	
	Freehold £m	Long Leasehold £m	Equipment £m	Leased Equipment £m	Course of Construction £m	Total £m
Cost						
At 1 August 2006	273.8	15.2	58.1	6.0	31.8	384.9
Additions at cost	14.3	0.0	1.8	0.0	29.6	45.7
Transfers (Note 12)	19.6	0.0	4.0	0.0	(24.2)	(0.6)
Disposals	0.0	0.0	(1.0)	0.0	0.0	(1.0)
At 31 July 2007	**307.7**	**15.2**	**62.9**	**6.0**	**37.2**	**429.0**
Depreciation						
At 1 August 2006	34.6	1.9	30.3	5.1	0.0	71.9
Charge for year	5.7	0.1	6.5	0.2	0.0	12.5
Transfers (Note 12)	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Eliminated on disposals	0.0	0.0	(1.0)	0.0	0.0	(1.0)
At 31 July 2007	**40.2**	**2.0**	**35.8**	**5.3**	**0.0**	**83.3**
Net book value						
At 31 July 2007	**267.5**	**13.2**	**27.1**	**0.7**	**37.2**	**345.7**
At 1 August 2006	239.2	13.3	27.8	0.9	31.8	313.0

	University					
	Land and buildings				Assets in	
	Freehold £m	Long Leasehold £m	Equipment £m	Leased Equipment £m	Course of Construction £m	Total £m
Cost						
At 1 August 2006	273.8	15.2	58.1	0.8	31.8	379.7
Additions at cost	14.3	0.0	1.8	0.0	29.2	45.3
Transfers (Note 12)	19.6	0.0	4.0	0.0	(24.2)	(0.6)
Disposals	0.0	0.0	(1.0)	0.0	0.0	(1.0)
At 31 July 2007	**307.7**	**15.2**	**62.9**	**0.8**	**36.8**	**423.4**
Depreciation						
At 1 August 2006	34.6	1.9	30.3	0.8	0.0	67.6
Charge for year	5.7	0.1	6.5	0.0	0.0	12.3
Transfers (Note 12)	(0.1)	0.0	0.0	0.0	0.0	(0.1)
Eliminated on disposals	0.0	0.0	(1.0)	0.0	0.0	(1.0)
At 31 July 2007	**40.2**	**2.0**	**35.8**	**0.8**	**0.0**	**78.8**
Net book value						
At 31 July 2007	**267.5**	**13.2**	**27.1**	**0.0**	**36.8**	**344.6**
At 31 July 2006	239.2	13.3	27.8	0.0	31.8	312.1

11. Investments

	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Subsidiary companies	0.0	0.0	0.4	0.4
Associated companies	9.8	10.2	6.8	6.9
Investments	0.6	0.6	0.6	0.6
	10.4	10.8	7.8	7.9

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

Company name	No of £1 Ordinary Shares
Nottingham University Industrial and Commercial Enterprise Limited	100,000
Eminate Limited	2

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

Investment in associated companies	Consolidated £m
As at 1 August 2006	10.2
Group's share of retained losses	(0.1)
Exchange movements	(0.3)
As at 31 July 2007	9.8

The university owns 37.5% of the University of Nottingham Ningbo China, a co-operative joint venture established in China. It has a financial year end of 31 December in accordance with Chinese regulations. The university has invested cash of £3.4 million and has received additional equity of £4.3 million in recognition of its intellectual property contribution. The majority shareholder has provided infrastructure amounting to £17.2 million. The consolidated accounts of the university reflect a carrying value equal to 37.5% of the net assets, excluding intellectual property, as at 31 July.

The university owns 29.1% of the ordinary share capital of the University of Nottingham, Malaysia, a company incorporated in Malaysia. It has a financial year end of 31 December in common with its majority shareholder. The university's total investment is £5.3 million. In the accounts of the university this has been written down by the university's share of accumulated losses to date.

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

12. Investment properties and endowment asset investments

	Investment properties £m	Endowment asset investments £m
Balance at 1 August 2006	6.9	28.4
Net transfer from fixed assets (Note 10)	0.5	0.0
Additions	0.0	4.6
Disposals	(3.2)	(5.3)
(Depreciation)/Appreciation on revaluation	(0.4)	1.6
Diminution in value	(0.1)	0.0
Increase in cash balances	0.0	1.2
Balance at 31 July 2007	3.7	30.5
Represented by:		
Fixed interest stocks	0.0	3.2
Equities	0.0	22.0
Land and property	3.7	1.1
Cash balances (Note 28)	0.0	4.2
Balance at 31 July 2007	3.7	30.5

Notes to the accounts *continued*

12. Investment properties and endowment asset investments *continued*

Land and property valuations as at 31 July 2007 have been made by senior management on the advice of Savills (L&P) Ltd and Shouler and Sons, firms of Chartered Surveyors, the basis of valuation being open market value taking groups of properties together for this purpose.

13. Debtors

	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Amounts falling due within one year:				
Debtors	19.5	23.7	18.1	21.6
Amounts due from subsidiaries	0.0	0.0	3.4	4.3
Prepayments and accrued income	29.8	28.1	29.3	27.9
	49.3	51.8	50.8	53.8

14. Creditors: amounts falling due within one year

	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Obligations under finance leases (Note 20)	0.3	0.3	0.0	0.0
HEFCE loans	0.3	0.4	0.3	0.4
Payments received in advance	2.6	2.8	2.3	2.5
Creditors	11.7	12.1	11.2	11.5
Social security and other taxation payable	8.4	7.8	8.6	7.8
Amounts due to subsidiaries	0.0	0.0	0.8	3.5
Accruals and deferred income	84.9	75.0	83.6	72.2
	108.2	98.4	106.8	97.9

15. Creditors: amounts falling due after more than one year

	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Loans from subsidiary companies	0.0	0.0	1.7	0.0
Loans	56.3	64.0	56.3	64.0
HEFCE loans	0.0	0.3	0.0	0.3
	56.3	64.3	58.0	64.3
Obligations under finance leases (Note 20)	0.8	1.0	0.0	0.0
	57.1	65.3	58.0	64.3

The 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 28 year revolving credit facility with a £30 million bullet repayment and a straightline amortisation over 25 years after a 3 year repayment holiday. The university has the ability to repay and redraw against the facility over the period of the loans and utilises this facility to manange its cash requirements. In addition the university has a multi-option facility for £15 million.

16. Deferred capital grants

	Consolidated and University		
	Funding council £m	Other grants & benefactions £m	Total £m
At 1 August 2006			
Buildings	68.2	22.8	91.0
Equipment	15.4	5.8	21.2
Total	83.6	28.6	112.2
Grants received			
Buildings	26.0	0.5	26.5
Equipment	0.5	1.5	2.0
Total	26.5	2.0	28.5
Released to income and expenditure			
Buildings (Notes 1 and 4)	(1.8)	(0.3)	(2.1)
Equipment (Notes 1, 3 and 4)	(2.5)	(1.3)	(3.8)
Total	(4.3)	(1.6)	(5.9)
At 31 July 2007			
Buildings	92.4	23.0	115.4
Equipment	13.4	6.0	19.4
Total	105.8	29.0	134.8

17. Endowments

	Consolidated and University
	£m
At 1 August 2006	28.4
Additions	0.1
Appreciation of endowment asset investments	1.6
Income for year	1.1
Transferred to income and expenditure account	(0.7)
At 31 July 2007	30.5
Representing:	
Fellowships and scholarships funds	3.9
Prizes funds	1.1
Chairs and lectureships funds	15.9
Other funds	9.6
	30.5

Notes to the accounts *continued*

18. Revaluation reserves	Consolidated £m	University £m
Balance at 1 August 2006	6.7	6.7
Transfer to general reserves	(3.0)	(3.0)
Revaluations in the period	(0.4)	(0.4)
Balance at 31 July 2007	3.3	3.3

19. General reserves	Consolidated £m	University £m
Balance at 1 August 2006	112.8	110.0
Transfer from surplus for the year	(0.3)	(0.5)
Transfers from endowment reserves, revaluation reserves, pension reserve and exchange movements	1.5	1.7
Balance at 31 July 2007	114.0	111.2

The university's individual Income and Expenditure Account and related notes have been excluded from these financial statements because the results are included in the Consolidated Income and Expenditure Account. The loss for the year before share of associate's profits (2006 losses) was £0.6 million (2006 - £7.8 million).

20. Lease obligations	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Obligations under finance leases fall due as follows:				
One to two years	0.4	0.3	0.0	0.0
Between two and five years	0.4	0.7	0.0	0.0
Over five years	0.0	0.0	0.0	0.0
Total over one year (Note 15)	0.8	1.0	0.0	0.0
Within one year (Note 14)	0.3	0.3	0.0	0.0
	1.1	1.3	0.0	0.0
Operating lease commitments in respect of land and buildings for the forthcoming financial year, on leases expiring:				
Within one year	0.1	0.1	0.1	0.1
Between two and five years	0.1	0.1	0.1	0.1
	0.2	0.2	0.2	0.2
Operating lease commitments in respect of equipment for the forthcoming financial year, on leases expiring:				
Within one year	0.0	0.0	0.0	0.0
Between two and five years	0.4	0.2	0.4	0.2
	0.4	0.2	0.4	0.2

21. Capital commitments	Consolidated		University	
	2007 £m	2006 £m	2007 £m	2006 £m
Commitments contracted at 31 July	24.3	11.8	24.3	11.8

22. 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.

	2007		2006	
	Malaysia £000	China £000	Malaysia £000	China £000
Net charges by the university:				
Costs	359	641	379	605
Management fee	588	596	451	307
Owed to the university at 31 July	476	1,009	478	536
Additional share capital acquired	0	0	816	0

23. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2007 £m	2006 £m
Deficit for the year	(0.3)	(8.4)
Depreciation (Note 10)	12.5	10.9
Loss on disposal of fixed assets	0.0	0.1
Impairment of investments	0.2	1.1
Surplus on disposal of off-campus accommodation	(0.7)	(0.2)
Share of losses in associated company	0.1	0.6
Deferred capital grants released to income (Note 16)	(5.9)	(4.4)
Investment income (Note 5)	(1.2)	(1.5)
Interest payable (Note 8)	3.5	3.3
Net income released from specific endowments	0.4	0.2
Decrease in stocks	0.1	0.1
Decrease/(Increase) in debtors	1.6	(0.5)
Increase in creditors	4.9	15.3
Net cash inflow from operating activities	15.2	16.6

24. Returns on investments and servicing of finance

	2007 £m	2006 £m
Income from endowments	0.6	1.1
Other interest received	0.5	0.5
Interest paid	(3.4)	(2.7)
Net cash outflow from returns on investments and servicing of finance	(2.3)	(1.1)

25. Capital expenditure and financial investment

	2007 £m	2006 £m
Payments to acquire tangible assets	(42.3)	(47.9)
Payments to acquire endowment asset investments (Note 12)	(4.6)	(29.0)
Total payments to acquire fixed and endowment asset investments	(46.9)	(76.9)
Receipts from sales of endowment assets (Note 12)	5.3	31.9
Receipts from sale of off-campus accommodation	3.3	0.5
Deferred capital grants received (Note 16)	30.1	28.7
Endowments received (Note 17)	0.1	0.0
Net cash outflow from investing activities	(8.1)	(15.8)

Notes to the accounts *continued*

26. Acquisitions and disposals

	2007 £m	2006 £m
Payments to acquire share capital in associates	0.0	3.0

27. Analysis of changes in consolidated financing during the year

	Total £m	Finance leases £m	Mortgages and loans £m
Balances at 1 August 2006	**66.2**	**1.4**	**64.8**
New leases/loans	119.0	0.0	119.0
Capital repayments	(127.2)	(0.3)	(126.9)
Foreign exchange translation differences	(0.3)	0.0	(0.3)
Net amount repaid in year	(8.5)	(0.3)	(8.2)
Balances at 31 July 2007	57.7	1.1	56.6

28. Analysis of changes in net debt

	At 1 August 2006 £m	Cash Flows £m	Other Changes £m	At 31 July 2007 £m
Cash:				
Endowment asset investments (Note 12)	3.0	1.2	0.0	4.2
Cash at bank and in hand	4.0	(1.4)	0.0	2.6
	7.0	(0.2)	0.0	6.8
Short term investments	7.7	(3.1)	0.0	4.6
Debt due within one year	(0.4)	0.1	0.0	(0.3)
Debt due after one year	(64.3)	7.8	0.2	(56.3)
Finance leases	(1.3)	0.2	0.0	(1.1)
	(51.3)	4.8	0.2	(46.3)

29. Surplus on disposal of property

	2007 £m	2006 £m
Sale proceeds	4.0	0.5
Costs of disposal:		
Costs associated with sale	0.1	0.0
Net book value of assets disposed of	3.2	0.3
	3.3	0.3
Net surplus on disposal	0.7	0.2

30. Pension schemes

The two principal pension schemes for the university's staff are the Universities Superannuation Scheme (USS) and the University of Nottingham Contributory Pension and Assurance Scheme (CPAS). USS provides benefits based on final pensionable salary for academic and related employees of some UK universities and some other employers. CPAS provides similar benefits for other staff of the university. 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, a defined benefit scheme, which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. 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 2005. 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 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% 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. Using the Minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at that date; under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded; on a buy-out basis (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 74% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, the actuary estimated that the funding level would have been approximately 90%.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits, which arise at future valuations, may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as 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 next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

Notes to the accounts *continued*

30. 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 1 August 2005. For 2005/06 employer contributions were 14.0% of pensionable pay and active members paid in at the rate of 5.0% of pensionable pay. Following the 1 August 2005 valuation various changes were made to the scheme with effect from 1 September 2006. Employer contributions have been agreed at the rate of 19.7% of pensionable pay from 1 August 2006 until December 2006, then 18.7% of pensionable pay thereafter. Active members pay contributions at the rate of 5.0% of pensionable pay, increasing to 6.0% after 31 December 2006.

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 6.0% per annum, salary increases would be 4.5% per annum and pensions would increase between 2.6% and 3.25% per annum. The market value of the assets of the scheme was £72.9 million with past service liabilities of £99.3 million. The valuation was carried out using the projected unit method.

CPAS was closed to new entrants from 1 September 2006, as part of the changes noted above. 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 cost for the university and its subsidiaries was:

	2007 £m	2006 £m
Contributions to USS	16.2	14.4
Contributions to CPAS	2.9	3.5
Contributions to other pension schemes	1.2	1.1
Total pensions cost (Note 6)	20.3	19.0

30. Pension schemes – *continued*

CPAS – FRS 17 Disclosure

The results of the 2005 valuation have been projected to 31 July 2007 and then recalculated based on the following assumptions:

	At 31 July 2007	At 31 July 2006	At 31 July 2005
Rate of increase in salaries	4.20%	4.00%	3.70%
Increases for pensions in payment post 2003	3.00%	2.80%	2.60%
Increases for pensions in payment pre 2003	3.30%	3.20%	3.00%
Liability discount rate	5.70%	5.35%	5.40%
Inflation assumption	3.20%	3.00%	2.70%
Revaluation of deferred pensions	3.20%	3.00%	2.70%

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

	Long-term rate of return expected at 31 July 2007 %	Value at 31 July 2007 £m	Long-term rate of return expected at 31 July 2006 %	Value at 31 July 2006 £m	Long-term rate of return expected at 31 July 2005 %	Value at 31 July 2005 £m
Equities	8.10%	67.2	7.20%	59.6	7.00%	51.7
Bonds	5.40%	22.1	4.80%	19.0	4.70%	16.3
Property	8.10%	4.6	7.20%	4.2	7.00%	3.2
Cash	5.10%	2.0	4.75%	1.8	4.50%	1.6
Total market value of assets		**95.9**		**84.6**		**72.8**
Present value of scheme liabilities		**(122.4)**		**(117.7)**		**(99.4)**
Deficit in the scheme		**(26.5)**		**(33.1)**		**(26.6)**
Net assets incorporating net pension liability		**256.1**		**227.0**		**214.0**

Analysis of the amount charged to operating profit	2007 £m	2006 £m
Current service cost	(3.3)	(3.5)
Past service cost	0.0	0.0
Total operating charge	(3.3)	(3.5)

Analysis of the amount credited to other finance income	2007 £m	2006 £m
Expected return on pension scheme assets	5.7	4.7
Interest on pension scheme liabilities	(6.3)	(5.4)
Net return	(0.6)	(0.7)

Notes to the accounts *continued*

30. Pension schemes – *continued*

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

	2007 £m	2006 £m
Actual return less expected return on pension scheme assets	3.4	4.4
Experience gains and losses arising on the scheme liabilities	(3.1)	0.8
Changes in assumptions underlying the present value of the scheme liabilities	5.0	(11.4)
Actuarial gain/(loss) recognised in STRGL	5.3	(6.2)

Movement in deficit during the year:	2007 £m	2006 £m
Deficit in scheme at start of year	(33.1)	(26.6)
Movement in year:		
Current service cost	(3.3)	(3.5)
Contributions	5.2	3.9
Past service costs	0.0	0.0
Other finance costs	(0.6)	(0.7)
Actuarial gain	5.3	(6.2)
Deficit in scheme at year end	(26.5)	(33.1)

History of experience gains and losses

	2007	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:					
Amount (£m)	3.4	4.4	8.4	0.8	(0.3)
Percentage of the scheme assets	4%	5%	12%	1%	(1%)
Experience gains and losses on scheme liabilities:					
Amount (£m)	(3.1)	0.8	0.0	0.0	(4.5)
Percentage of the present value of the scheme liabilities	(3%)	1%	0%	0%	(6%)
Total amount recognised in statement of total recognised gains and losses:					
Amount (£m)	5.3	(6.2)	2.3	2.5	(16.2)
Percentage of the present value of the scheme liabilities	4%	(5%)	2%	3%	(20%)

30. Pension schemes – *continued*

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%.

31. Access funds

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

	2007 £m	2006 £m
Balance at 1 August	0.1	0.2
Funding council grants	0.7	0.6
Interest earned	0.0	0.0
	0.8	0.8
Disbursed to students	(0.6)	(0.7)
Balance unspent at 31 July	0.2	0.1

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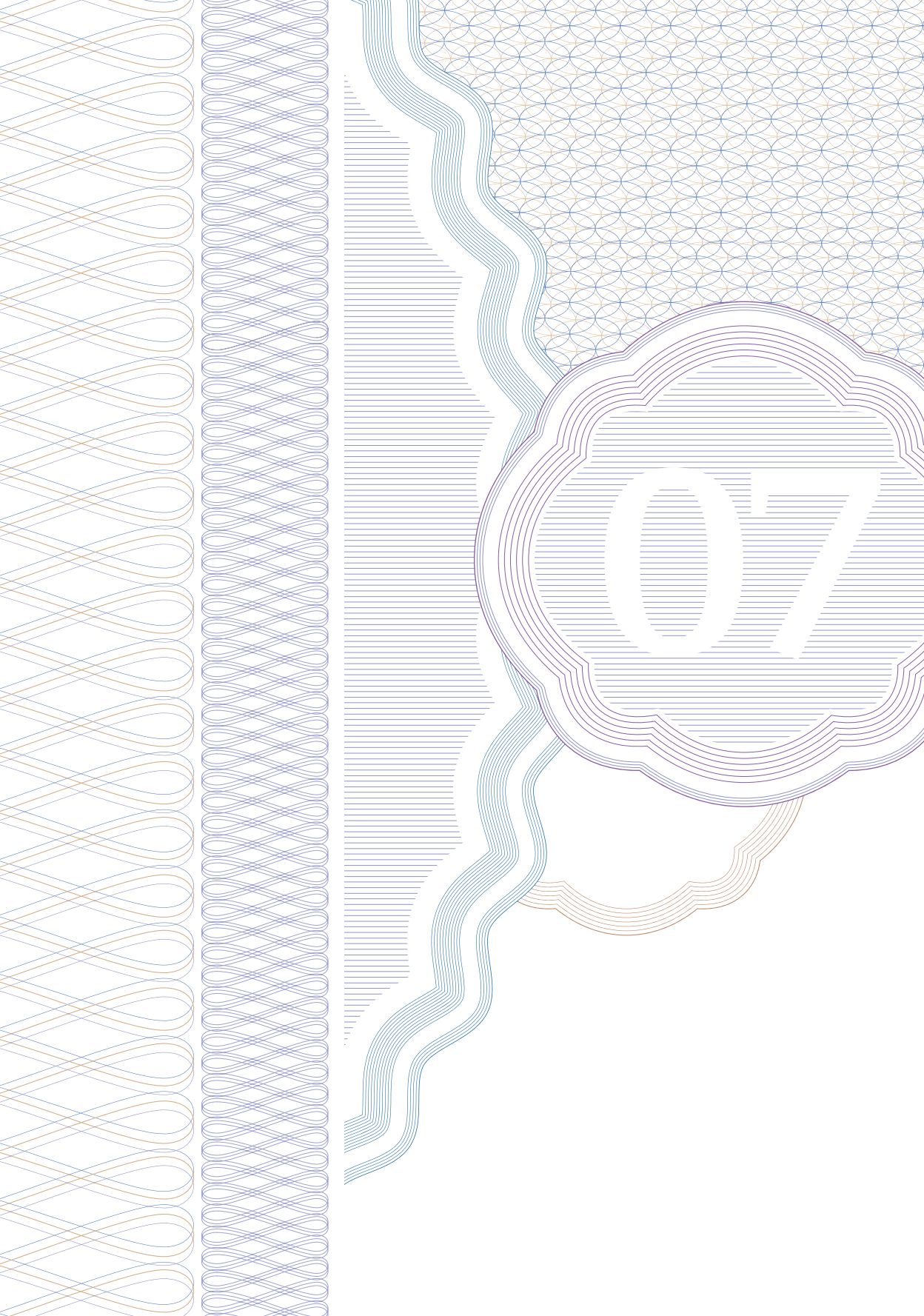

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