

Inspiring success



Governors' Report and Financial Statements

for the year ended
31 July 2010





Contents

Foreword from the Chairman and Pro-Chancellor	3
Board of Governors	5
Operating and Financial Review	6
Corporate Governance	15
Independent Auditors' Report to the Board of Governors of Teesside University	17
Statement of Principal Accounting Policies	19
Consolidated Income and Expenditure Account	22
Statement of Group Historical Cost Surpluses and Deficits	23
Statement of Group Total Recognised Gains and Losses	24
Balance Sheets as at 31 July	25
Consolidated Cash Flow Statement	27
Notes to the Financial Statements, Year ended 31 July 2010	28



Foreword from the Chairman and Pro-Chancellor

At the time of writing, we are drawing to the end of our period as 'University of the Year'. It is an accolade which reflects the dedication of our staff, the talent of our students, the strength of our partnerships, and the leadership of our management team.

It has been a year packed with activity on all fronts; and I commend this report to you as an outline of our achievements.

Looking forward, we are well aware that higher education is going to be very different. As the Vice-Chancellor said recently 'the future is not going to look like the past'. However, my colleagues on the Board of Governors and I firmly believe that our University is well-placed to face the future – building on our academic and financial strength to realise our ambitions.

Sandy Anderson OBE DL FREng
Chairman and Pro-Chancellor



Board of Governors

Independent Members

Mr Sandy Anderson (Chair and Pro-Chancellor)

Mr Paul Booth

Mr Bob Cuffe

Mr Neil Etherington

Mr Chris Fleetwood

Ms Tricia Hart

Mr John Irwin

Mr Alastair MacColl (Deputy Chair)

Mr Sean Price

Mr Keith Robinson (Treasurer)

Mrs Alison Thain

Mrs Judyth Thomas (resigned 15 January 2010)

Co-opted Members

Mr Tom Cawkwell (resigned 16 July 2010)

Mr Ernie Haidon

Mr David Heaton (appointed 16 October 2009)

Mr John Hogg (appointed 15 January 2010)

Dr Terry Murphy

Professor Gerda Roper

Mr Peter Rowley

Mrs Beverly Simpson

Ms Amanda Skelton

Ms Lori Wheatman (appointed 16 July 2010)

Vice-Chancellor and Chief Executive

Professor Graham Henderson

Secretary

Mr J Morgan McClintock

Operating and Financial Review

Strategic Plan

Introduction

In 2010, Teesside University celebrated its 80th anniversary. It was founded in 1930 as Constantine College, and was officially opened by the Prince of Wales, the future King Edward VIII. Constantine College became Teesside Polytechnic in 1969. It then became a new university – the University of Teesside – in 1992.

In 2009 the University rebranded itself as Teesside University. Privy Council approval has now been granted for us to formally change the institutional name, from 'University of Teesside' to 'Teesside University'. Since 2009, the new brand has been widely implemented, raising the profile of the University regionally, nationally and internationally.

Teesside University is an exempt charity under the terms of the Charities Act 2006. It is regulated by the Higher Education Funding Council for England (HEFCE) which has been appointed the principal regulator of higher education institutions.

The University derives income from a wide variety of sources, but much of its funding comes from grants from HEFCE, the National Health Service (NHS) and tuition fees. HEFCE is the major public sector funder of higher education institutions (HEIs) as a whole, and the University, in common with all other HEIs, is accountable to HEFCE for public funds. The relationship between the University and HEFCE is codified in a Financial Memorandum, which sets out the rights and responsibilities of both parties.

The NHS, through the North East Strategic Health Authority, continues to commission a range of training places for the delivery of nursing and midwifery, allied health professions, continuing professional development, clinical psychology, improving access to psychological therapies, operating department practice, medical ultrasound and nurse prescribing. This has now been complemented by commissioning for dental care education, from the beginning of the 2010-11 academic year.

Mission and Vision

The University's mission is encapsulated in the following:

Providing Opportunities, Promoting Enterprise, Delivering Excellence

Working in partnership to enable individuals and organisations to achieve their potential through high-quality learning, research and knowledge transfer.

This mission statement is central to the pursuit of the University's vision:

To achieve regional, national and international recognition as the UK's leading University for working with business and to be among the UK's top institutions of higher education in relation to:

- **being a vibrant and effective learning community**
- **delivering excellence and enhancing academic and professional standards for both individuals and organisations**
- **contributing effectively to the economic, social and cultural success of the communities that we serve; and**
- **demonstrating a real and continuing commitment to social inclusion.**

Public Benefit Statement

In determining the University's objectives and activities, the Board of Governors has had due regard to the Charity Commission's guidance on the reporting of public benefit and, in particular, the supplementary guidance about the advancement of education.

There are two key principles of public benefit. First, there must be an identifiable benefit or benefits, and second, the benefit(s) must be to the public, or to a section of the public.

The University's mission statement identifies a clear public benefit, in terms of the University's dedication to providing high-quality learning, research and knowledge transfer, and to doing so in partnership with individuals and organisations.

Operations

Overview

The University has nearly 30,000 students, of whom 38% are studying on full-time/sandwich courses and 62% on part-time courses. 7% of full-time students are domiciled overseas (outside the EU).

The University has a very strong sub-regional Higher Education Business Partnership (HEBP) with local further education colleges, in Middlesbrough, Stockton, Redcar, Hartlepool and Darlington. The Colleges provide potential learners with access to extensive webs of higher education opportunities. University-funded higher education centres have been opened in four partner Colleges, with the fifth (Hartlepool) presently being built. A new University campus, serving the west of the Tees Valley, is currently being built in Darlington.

The University is continuing to develop its research capability, delivered largely through the five research Institutes. A strong emphasis is placed on applied research and development, which is capable of contributing to the regional economy and of responding to regional needs. The focus is on knowledge and technology transfer, business support and advice, placement of students within the work environment, work-based learning, and the creation of new start-up and spin-out companies. To support this, the University continues to ensure that its programmes of study are appropriately underpinned by research, scholarship and evidenced-based contemporary professional practice.

Raising Aspirations and Widening Participation

The University has established a comprehensive range of initiatives to drive up aspirations and to increase participation across the wider Tees Valley. The University's work begins in primary schools (year 6) with pupils joining the Meteor programme, and the relationship continues as they transfer to secondary school.

The University has continued to be a key partner in the Aimhigher initiative to deliver aspiration-raising activity in secondary

schools across the UK. University staff actively support this work in the Tees Valley.

A key feature of the University's widening participation offer is the Passport scheme in partnership with 32 colleges. The scheme has over 8,000 student registrations and offers encouragement and support to students considering progression to higher education. The adult Passport scheme, introduced to support mature learners, has a healthy membership of over 600, drawn from six of our local key further education colleges. In recognition of the longstanding partnership arrangements with the University, ten of our school and college partners in the Tees Valley have signed up to our Passport Plus scheme. Passport Plus provides enhanced benefits to individual students, teachers and the institution.

Our Spring and Summer University programme offers a vital route for mature students to progress to full-time and part-time higher education programmes. In 2009-10, a successful Spring and Summer University was delivered at both the main campus in Middlesbrough and the University's site in Darlington.

The HEBP makes a significant contribution to widening participation. The opportunity for localised delivery of HE in FE colleges removes many barriers to access. The learning experience for students, and commitment to the policy of 'distributed HE', has been enhanced by the University's investment in higher education centres for all five partners.

The two new academies sponsored by the University, Freebrough Academy in Redcar & Cleveland, and Thornaby Academy in Stockton-on-Tees, opened in September 2010. The academies are founded on partnerships between the University, schools, parents and independent organisations working to support young people, and they will contribute to the University's widening participation work.

The University's record in widening participation continues to exceed all benchmarks, and the excellence of our work is widely acknowledged.

Student Recruitment

As the University continues to operate within a capped market for full-time undergraduate new entrants, our growth in this area has remained focused on subjects where there is strong demand, and in areas of priority such as science, technology, engineering and mathematics. The number of applications for 2010 entry onto all programmes was significantly higher than previous years. We have continued to support progression opportunities for our final-year students onto full-time and part-time postgraduate programmes, via a range of interventions, coupled with our bursary offer. We also commissioned research into postgraduate study, and we are now implementing the findings of this research to improve our approach to postgraduate recruitment.

As part-time study continues to be an important part of the institution's recruitment, it is encouraging that applications to part-time provision also increased for 2010 entry. We have worked extensively with partners to identify bespoke provision to meet their specific requirements. The University is committed to working in partnership with key stakeholders throughout the present economic uncertainty.

The Darlington campus development continues apace, with an expected opening date of September 2011. Over the past 18 months, the University has been delivering courses from its temporary campus in the town, while working to raise the awareness of the new development and promoting our commitment to enabling Darlington to become a 'University Town'.

The University's Department of Marketing and Student Recruitment has completed its first full year of operation and has delivered many successes. These include the CIPR Excellence Award in the category of Best Website, and three HEIST awards for innovation and professionalism in marketing. These accolades, alongside the *Times Higher Education Awards* for University of the Year and Outstanding Employer Engagement Initiative, position the University very positively in a highly competitive marketplace.

International Activity

The University has continued to increase its investment in, and development of, international recruitment activities. International student numbers have continued to increase, exceeding planned growth targets. Work continues to focus on developing a strong Teesside presence in major markets. The University is also developing a number of transnational arrangements with international partners, both within and outside the EU. The University is mindful of the need to be selective in working with partner organisations, and is careful to select those able to enhance our reputation and to provide strong support for our programmes.

Student Experience

Student satisfaction is central to all of our work. We have consistently been placed in the top two universities in the UK for international student satisfaction, according to a survey of international students called the International Student Barometer (ISB). In the most recent 'wave' of the survey, we achieved a satisfaction rate of 87%, placing us second overall out of participating institutions in the UK. We also performed well in the *Times Higher Education's* Student Experience Survey, with an overall score of 77.3% satisfaction, placing us 30th out of 104 institutions taking part. The results of these surveys, and other feedback obtained by internal monitoring processes, are used by the Schools to develop action plans, which are reviewed regularly by the Deputy Vice-Chancellor (Learning and Student Experience).

We continue to monitor the engagement of students with their programmes very closely, and take action at an early stage to provide support for students who are struggling. We also enhance the student information available, follow up on non-submission of coursework, and review assessment strategies in order to improve retention and completion rates.

Employability

The University recently responded to HEFCE's request for statements on the contributions of universities to employability. Our statement was published on HEFCE's Unistats website in August 2010. The statement links to our new website on employability, which showcases good practice across the University. The site also includes case studies of positive student experience. Employability is now a key theme across the campus, with an enhanced programme of activities throughout the autumn term, culminating in an intensive University-wide week of workshops, guest lectures and presentations. The main purpose is to encourage students to think constructively, imaginatively and positively about their own futures.

A pilot 'EmployabilityTees' project was run in 2010, providing a range of opportunities for student development. Around 300 students undertook HEFCE-funded intern projects, giving them direct experience of the workplace. A new initiative, 'entrepreneurs@tees', has been launched as a joint venture between the University and the Students' Union. The objective is to help students to develop their enterprise skills, and to consider the possibility of setting up their own businesses.

The University has established an Internationalisation Steering Group, which is distinct from work in international recruitment and overseas links. The Steering Group co-ordinates and monitors initiatives to integrate international dimensions into the curriculum, and to promote possibilities of student exchanges and schemes such as ERASMUS. In connection with the employability agenda, our aim is to integrate international dimensions across all areas of the University, and to develop international awareness and intercultural competence in all staff and students.

Teaching and Learning

The new Department for Learning Development provides enhanced direction and leadership in learning and teaching, and signals the importance that the University places on the learning experience. The University works closely with the Higher Education Academy (HEA), and University staff have been successful in gaining a significant number of prestigious National Teaching Fellow awards. These Fellows, together with University Teaching Fellows and Associate Fellows, provide an important learning and teaching resource. They work closely with staff in the Department for Learning Development on key institutional priorities, which are derived from our Learning, Teaching and Assessment strategy. These priorities include the development of the employability skills of our graduates and the provision of a more international experience for all of our students.

The University underwent an audit by the Quality Assurance Agency in December 2009. We were delighted to receive a positive outcome, in terms of levels of confidence in:

- the soundness of the institution's present and likely future management of the academic standards of its awards; and
- the quality of the learning opportunities available to students.

The Colleges within the HEBP also recently underwent a Developmental Engagement stage of the Integrated Quality and Enhancement Review (IQER) as a collaborative partnership. The Colleges received very positive feedback, with over ten areas of good practice noted. Particularly pleasing was the recorded evidence of the strength of the relationship between the HEBP and the University.

The University sustains an excellent partnership with the Strategic Health Authority (SHA). The SHA's Annual Monitoring and Review of our commissioned activity, in March 2010, once again confirmed the excellence, innovation and quality of our provision. A number of initiatives were identified for dissemination as exemplars of good practice; and there were no recommendations or conditions arising from the Review.

Research

The University continues to focus on maximising the impact of research activity, and on growing research income.

The University's five research Institutes, launched in 2009, are now well established. They support the highest quality research, and also provide opportunities and support for new researchers.

The five Institutes are:

- Digital Futures Institute
- Health and Social Care Institute
- Institute of Design, Culture and the Arts
- Social Futures Institute
- Technology Futures Institute.

In 2009-10, the annual income for research grants and contracts was £3.2m. The value of awarded research grants was £1.7m. Significant new funded projects include:

- a major EPSRC grant, brought to the University by a new member of staff
- two EPSRC 'Research in the Wild' awards, for work on the use of virtual environments for developing and practising citizenship; and on the use of next generation computer games to promote vigorous physical activity
- research on intergenerational cultures of worklessness, funded by the Joseph Rowntree Foundation
- research on interactions with massive volumes of data, funded by the European Commission
- evaluation of the O₂ Think Big Project, funded by O₂.

The 2008 RAE demonstrated that 70% of all work submitted by Teesside was of international quality or higher. Preparation is now underway for the new Research Excellence Framework (REF) and includes a new International Visiting Academic scheme, to initiate and support international research collaborations.

The Institutional Audit in 2009-10 recognised good, effective arrangements for supporting, supervising and assessing postgraduate research students. Research governance at Teesside has been enhanced through new policy and procedures for research ethics, reflecting changes in legislation and external guidance.

Business Engagement Activities

The University's Business Engagement Strategy, covering business start-up and incubation, consultancy, knowledge transfer, commercialisation and workforce development, demonstrates the University's leading role in business engagement.

The University continued to make excellent progress during the year in developing and refining internal systems, and building networks of employers. It has a strong reputation, regionally and nationally, for working with business. This growth is borne out by institutional performance indicators, which show a 31% increase in commercial income and an increase of over 170% in co-funded Additional Student Numbers (jointly funded full-time equivalent employer-based students).

The University believes that strong employer relationships will be vital over the next few years, given the changes in public funding; and that non-traditional student markets offer potential for institutional growth.

Enterprise and Knowledge Transfer

During 2009-10, key developments included:

- over £10m in business-related income (commercial income plus grant) representing a 25% increase on 2008-09 (commercial income increased by 31%); 72 business start-ups; 113 jobs created; and 539 projects undertaken with 371 organisations
- development of a business engagement strategy for the Darlington campus
- the University leading on nine major enterprise projects, supporting business growth through innovation and entrepreneurship. These projects are worth £13m in grants
- creation of the 100th business from the Digital City Fellowships Scheme, run by the Institute of Digital Innovation. For the past six months, this Scheme has created an average of one business per week
- national awards for Knowledge Transfer Partnerships, including:
 - two Teesside associates winning Business Leader of Tomorrow titles (only five are awarded nationally)
 - Grade 'A', indicating 'Outstanding', for the Wellstream International KTP, for the second year running

- launch of Spark, a highly visual corporate identity for all the University's work with business
- a major survey of over 3,000 businesses to assess awareness and understanding of the University's business offer. The survey showed improved levels of both, in comparison with the last exercise in 2006
- external evaluation of business engagement, to identify key areas for development in 2010-11
- Customer First accreditation for business engagement activities in four key areas of the University.

The University is carefully monitoring the development of government plans for the network of Technology and Innovation Centres (TICs), announced in October 2010, which will support businesses in the development and commercialisation of new technology.

Workforce Development

The year saw significant growth in workforce development activity and student numbers, supported by the £5.18m Strategic Development Fund (SDF) project 'Building the Future'. The SDF project, as one of the largest in the country, has a high profile in the sector.

Key developments included:

- major growth in employer-led programmes, largely reflecting the work of the Business Account Manager team, which saw workforce development grow in every School
- programmes for 61 employers, of whom 40 were new workforce development partners, delivered to over 3,000 employer-based learners
- *Times Higher Education Award* for Outstanding Employer Engagement Initiative, based on Teesside University Business School's work with the North East Chamber of Commerce, in developing and delivering a tailored Foundation Degree in Leadership and Management for NECC members
- a programme of awareness and staff development, specifically targeted to the needs of individual Schools
- continued developments to the Customer Relationship Management system (CRMS), which supports work with business. This has included staff

development and also technical enhancements, including sophisticated marketing software. Over 60 CRMS marketing campaigns were run during the year.

Economic Challenge Investment Fund and Graduate Internships

The University delivered two major initiatives in 2009-10 to support businesses and individuals through the recession.

The Economic Challenge Investment Fund (ECIF) project, supported by HEFCE and One North East, helped 1,000 individuals and 150 businesses with information, advice and guidance, skills provision, innovation and knowledge transfer, and graduate placements. By the end of 2009-10, the initiative, delivered through the One Door network with our HEBP partners, is expected to exceed its challenging targets.

In early 2010, following another competitive bidding process, the University was awarded a grant to deliver 200 subsidised graduate internships to small businesses and larger companies in target sectors. This was one of the largest allocations for graduate internships in the country. By the end of the year, following an additional allocation of 12 places and delivery of 38 internships through the ECIF project, 250 internships had been delivered or committed, with excellent feedback from participating companies and graduates. Both initiatives have made a significant contribution to the University's growing business base.

Financial Performance

Key Financial Data	2009-10 £000	2008-09 £000
Total income	141,322	134,797
Total expenditure	134,334	123,402
Surplus for the year	6,987	11,390
Exceptional items (included in above):		
HEFCE adjustment	(8,400)	–
Voluntary severance scheme	(1,660)	–
Capital additions	15,649	8,377
Cash at bank and in hand including money market investments	56,804	55,967
Borrowings	8,025	8,667
Total funds (net assets)	106,490	84,576
Cash flow generated from operations	15,951	17,714

The Resources Committee receives regular reports from the Director of Finance, providing information on the expected outturn, compared to the budget.

Surplus for the Year

2009-10 has proved to be another very successful year for the University. It is pleasing to be able to report that total income has increased by almost 5% over the previous year, resulting in the University generating an end-of-year financial surplus of almost £7m (5% of turnover), reflecting the continuing financial strength of the University and building upon the record surpluses achieved in the last five years.

This level of financial performance meets all of the key financial performance indicators within the University's financial strategy including, in particular, the targets of generating:

- a minimum annual operating surplus of £5m; and
- minimum cash balances, including term deposits, of £20m.

Meeting these financial targets ensures that the University has access to the financial resources necessary to fund its building programme without resorting to borrowing, and to provide stability in the current economic climate.

In July 2010, HEFCE requested a reconciliation of the University's two student data returns for 2008-09 (the Higher Education Early Statistics Survey 2008-09 (HESES08) return and the HESA Student Record). This exercise has not yet been concluded, but provisional results provided by HEFCE indicate a likely retrospective grant adjustment of £3.0m for 2008-09 (as a result of a combination of understated student non-completions and the recording of some distance learning students) and an adjustment of £0.8m on the University's grant allocation for 2009-10.

HEFCE has also recently undertaken an audit of the University's Higher Education Early Statistics Survey 2009-10 (HESES09) return. HEFCE's initial assessment of the funding consequences is that the fundable student numbers reported in HESES09 were also overstated, for similar reasons to those identified in the 2008-09 reconciliation, and that a grant adjustment of £4.6m may be applied to the University's income for 2009-10. The actual liability will not be formally confirmed until a final review is completed by HEFCE's analytical services group, but, management believes that the provision represents the maximum potential liability.

It should also be noted, that the audit is now closed and based on its audit findings, and the University's associated action plan, HEFCE has confirmed that it is assured that the University is assessing student completion status correctly.

Full provision has been made for all of these potential adjustments within the annual accounts, but has still resulted in the very strong surplus of £7m reported above.

Expenditure 2009-10

Total expenditure has increased by 8.9% over the previous year. This is largely due to pay costs (including the costs of the voluntary severance scheme) and the University's contribution towards the construction of HE centres at two of our partner Colleges.

Capital Additions

The University is committed to maintaining the strength of its balance sheet, by increasing its capital asset base without incurring new long-term liabilities. In the course of the year, the University invested almost £16m in additions to fixed assets. Of this amount, £8.1m was spent on the completion of the Centuria South building –

a complex of outstanding laboratories for health programmes and for sport and exercise science, including a hydrotherapy pool and a showpiece dental education and practice facility. Centuria South was officially opened by the Princess Royal in October 2010.

Additionally, construction work began on the University's new building in Darlington, which will deliver higher education provision for North Yorkshire and the wider Tees Valley. £3m was spent on the building during 2009-10, which will open for the 2011-12 academic year. The University is receiving contributions of £1.5m from Darlington Borough Council and One North East towards the estimated total building costs of £12m.

Treasury Management and Cash Flow

The University holds significant cash balances which it invests in money market deposits and UK government treasury bills. It operates to an agreed counterparty list as set out in the Treasury Management Policy. This list sets out investment limits and minimum ratings requirements for deposit-takers. In view of the current economic climate, the policy is being reviewed regularly to ensure that the University minimises the exposure to risk of its funds. Regular reports are made to the Governors' Resources Committee.

The University continues to fund its capital additions from its own resources, so that borrowing remains low. Since the interest rates payable are linked to base rate and LIBOR, interest costs have also been low. The low base rate has adversely impacted on the interest received from the University's money market deposits, although it has had a positive effect on the interest payable on borrowings.

Cash flow from operations for the year was £15.9m. After receipts from capital grants of £1.9m, cash outflows of £16.1m for capital items, £0.8m for loan repayments and £0.8m increase in money market deposits, the net cash inflow was £16,000.

Total Funds

The increase in total funds of almost £22m, as compared to the previous year, is as a result of an increase in capital grants of £1m, the retained surplus of £7m and FRS 17 adjustments of £13.9m.

These adjustments are reflected in the reduction of £11.6m in the pension fund deficit. This improvement in the deficit is due to a combination of a significant increase in the value of scheme assets at the balance sheet date, as compared to the previous year, and a change in the inflation rate used for increases in future pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI). This change affects all pension benefits earned to date (and future benefits) and has resulted in a reduction of scheme liabilities of £4.4m.

Resources

People

Teesside University recognises that its staff are a very valuable asset, and continues to demonstrate its commitment to all staff by maintaining recognition as an Investor in People (IiP) at Level 3. One thousand staff took part in a comprehensive staff attitude survey in 2009-10 – the first time such a survey has been undertaken at the University. The outcomes of the survey have been very positive, with staff clearly identifying the University as a high-quality employer.

Considerable value is placed on the involvement of employees and on good communication, which includes a regular newsletter for all staff, and an official Briefing, which is published every month by the Vice-Chancellor. Staff are encouraged to participate in formal and informal consultations at University, School and departmental level – sometimes through the membership of formal committees, and sometimes more informally.

The University's Staff Development and Learning and Teaching Development teams continue to build and enhance initial and continuing development opportunities for all staff groups. The aim is to enable staff to implement the University's mission, corporate objectives and core strategies; and also to encourage staff to achieve highly, to network and communicate with each other, and to make the most of their work.

Some key achievements in 2009-10 were:

- successful delivery of 20 staff development programmes, directed either towards specific initiatives or towards particular groups of staff
- more than 3,000 staff participated in workshops. (Within the 20 programmes, more than 340 individual workshops were offered.)
- the Staff Development team provided more than 100 tailored activities to support groups and teams, as well as providing coaching support for individuals
- full funding support was provided for over 150 staff to undertake further HE study at Teesside. Of these, 13 students were staff from HEBP Colleges, delivering Teesside programmes
- there is a new staff development database, which will greatly improve evaluation of the impact of learning development activities
- 25 staff at middle management level completed leadership and management development programmes. These programmes are continuously enhanced and updated.

As noted in the review of Teaching and Learning, the Quality Assurance Agency (QAA) undertook an Institutional Audit in December 2009. Two of the QAA's conclusions related to good practice in the support and development of staff, as follows:

- the effective alignment of strategic aims and inclusive staff development activities in support of the University's mission
- the development and implementation of a comprehensive and responsive structure to support e-learning.

Equal Opportunities

The University is committed to equal opportunities for staff and students, ensuring that individuals are treated fairly and with respect at all times, and given equality of opportunity in all activities. A range of training initiatives, policies and procedures demonstrate the University's commitment to ensuring that equality and diversity issues are clearly understood, and good practice applied.

The University's policy of equal opportunities for all includes ensuring that all applicants receive full and fair consideration for appropriate job vacancies; and that staff and students with disabilities are provided with practical, technical and personal support as needed.

Staffing Resources

Like all organisations, we have had to examine ways in which our staffing resource can be used to best effect. To this end, the University undertook a major voluntary severance scheme in 2009-10. This enabled us to redirect this resource into the areas of growth across the University.

Physical Resources

In the last five years, the University has spent over £45m on new buildings and improvements to existing buildings. There has also been investment in ICT equipment and resources, with funds being provided both by the University and by HEFCE, through the learning and teaching capital allocations.

Key Performance Indicators

In 2005, the Board established a suite of key performance indicators (KPIs) to monitor the University's progress, with a view to improving the University's position in the leading university league tables.

The University's Institutional Plan for the period 2009-12 includes a range of targets, covering all aspects of the University's operations. In 2009-10, the Board designated a subset of 12 of these targets as key performance indicators, to replace the 2005 series. The revised KPIs cover the areas of:

- student recruitment
- student progression, retention and attainment
- student satisfaction
- graduate destinations
- research activity
- commercial activity.

Other performance indicators are used by the Board's Resources Committee (key financial indicators, student profile and market share, and student continuation and completion) and by the Employment Policy Committee (trends in staffing levels and composition, absences, turnover, recruitment processes and staff qualifications).

In general, the University has made good progress, as indicated by the following figures:

- the average tariff points score of UK students entering full-time degree programmes at Teesside has increased (from 224 points in the 2005 entry cohort to 273 points in 2009)
- the percentage of students gaining first class or upper second class degrees has increased from 44.6% in 2004-05 to 53.3% in 2008-09
- National Student Survey scores have improved, with the overall satisfaction score for all respondents increasing from 80% in 2006 to 84% in 2009. Teesside has outstanding scores for learning resources (90% satisfaction in 2009) and the Survey shows increases in satisfaction in almost all areas.

Principal Risks and Uncertainties

Significant risks to the University over the coming 12-18 months are regularly assessed, with reference to a risk register. The University has mitigating actions in place to reduce the impact and likelihood of risks, and holds sufficient contingency funds to enable it to respond promptly to unforeseen events.

The University continues to embed risk management practices within its culture, enabling it to respond to new threats and opportunities, and to the potential impact of a small number of significant financial risks.

The Board of Governors has identified the following as major institutional risks:

1. **inadequate responsiveness to reductions in income**
2. **inability to meet HEFCE contract targets, resulting in loss of income, arising from student recruitment problems**
3. **poor graduate employment record, relative to other institutions.**

These areas are detailed below:

1. Inadequate responsiveness to reductions in income

As the likely scale of public expenditure reductions arising from the Comprehensive Spending Review began to emerge, the Board of Governors identified this as the most serious risk facing the University. It applies not only to the funding provided annually by HEFCE, which accounts for almost half of the University's income, but also to the University's teaching provision for the NHS and for police authorities, and to other programmes provided for various public sector bodies. There is a 37-point action plan to review discretionary income and reduce expenditure in the coming years, in order for the University to remain financially viable in the longer term.

It is expected that some of the anticipated reductions in grant income will be offset by increases in contributions by individual students, if the outcome of the Browne Review is an increase in the current cap

on full-time undergraduate student tuition fees. The University is currently carrying out extensive market research on sensitivity around fees and pricing.

2. Inability to meet HEFCE contract targets, resulting in loss of income, arising from student recruitment problems

This risk has been divided into three distinct segments.

- The first relates to the recruitment of full-time UK-based students. This risk has been addressed through a corporate recruitment strategy, which has resulted in improved processes for tracking and managing applications from initial enquiry through to enrolment, improved monitoring of competitor activity, and the appointment of marketing account managers in each School.
- The recruitment of part-time students is of particular importance, as they form the majority of the University's students, and account for some 40% of the University's HEFCE teaching funding. Improvements made to the part-time recruitment processes are similar to those for full-time students, but with some additional elements, such as the introduction of a formal application process.
- Workforce development (WFD) programmes, co-funded in partnership with employers, require a different approach. The emphasis is on building relationships with employers, or intermediary bodies, and developing programmes which meet a business need. The University obtained funding from HEFCE's Strategic Development Fund, which supported the development of the infrastructure needed to expand WFD activity from start up in 2008-09 to delivering over 1,000 full-time equivalents (FTEs) in 2010-11. In 2009-10, over 2,600 students (700 FTEs) completed co-funded programmes of study, an almost three-fold increase over the previous year.

3. Poor graduate employment record, relative to other institutions

Graduate employability is an important issue for the University. Measures are being taken by the University to improve the employability of Teesside graduates. These are detailed in the earlier section on Employability.

They include:

- an enhanced programme of activities focusing on employability and skills is being delivered during the autumn term
- there is an action plan to examine issues around curriculum development and key skills
- the 'EmployabilityTees' project, which draws together a range of student development activities, has been piloted. Approximately 300 participants benefited from HEFCE-funded intern projects and other graduate experience opportunities in 2010
- the University and the Students Union have come together to launch a major new initiative, 'entrepreneurs@tees' to encourage students to develop entrepreneurial skills and to consider setting up their own businesses
- there is a new employability website, which draws together practice from across the University, and showcases good practice and positive student experience.

Environmental Issues

Over the last 12 months, the ongoing reviews of the University's environmental impact have resulted in the following actions:

- introduction of new (and update of existing) corporate policies including the Environmental Policy, Sustainable Procurement Policy, Ethical Investment Policy, Environment Protection and Sustainable Development Policy, Emissions and Discharge Policy, and the Corporate Social Responsibility Mission Statement
- adoption of an environmental management system called Eco-Campus, developed specifically for the HE sector. It is anticipated that the University will have achieved the foundation Bronze stage by early 2011
- launch of the Environmental Representatives' Scheme, which helps to reduce carbon usage in all its forms, and promotes recycling to minimise the use of raw resources
- procurement of energy contracts has reverted to a competitive fixed price process, in an attempt to offer budget certainty
- extension of the position of Travel Co-ordinator to incorporate environmental matters
- introduction of a successful Park and Ride scheme
- introduction of flexible parking arrangements for staff/students with revised tariffs, and establishment of a new secure cycle store

- finalisation of an Action Plan for 2010-11 to include additional secure cycle stores, a bus shelter and the availability of a real-time information system on bus and train timetables
- extension of the energy consumption Monitoring and Targeting (M&T) system, with the introduction of additional automatic meter reading facilities
- formulation of a Carbon Reduction Plan (CRP) for the period of 2010 to 2020, in accordance with HEFCE's Capital Investment Framework 2 requirements
- successful registration in the Carbon Reduction Commitment (CRC) energy efficiency scheme
- achievement of the Carbon Trust Standard award, demonstrating a relative reduction in carbon emissions
- introduction of measures to record the carbon emissions arising from business travel, and the use of water associated with processing the University waste streams
- installation of a number of automatic meter reading facilities across the campus, relating to the Scope 1 (gas) and Scope 2 (electricity) consumption making information available on a building by building basis.

The University has a good track record in the use of energy (and therefore carbon) compared to the sector. When comparing performance ratios in the HE sector, the University is in the lowest quartile for the combined use of gas and electricity.

Energy usage is monitored on a building-by-building basis, and the outcomes of the energy management statistics (EMS) data are benchmarked against other HEIs. The notional energy emissions (kg CO₂) per student (full-time equivalent) across non-residential space are in the median quartile of the HE sector. This is a result of prudent programming of the energy management system.

Trends and Factors Affecting Future Performance

The main trends and factors that are likely to affect the University's future development, performance and position include:

Academic Profile

- Impact of our status as University of the Year for 2009-10
- Changing demands of key industrial sectors
- Delivery of our workforce development strategy
- Demographic trends in the Tees Valley region
- Further development of (and investment in) international markets
- Investment in HE centres linked to partner FE colleges
- Recruitment of students to the new campus in Darlington
- Possibilities offered by different modes of study (flexible learning, work-based learning, distance learning).

External Factors

- Reduction in government funding of higher education, the NHS and other public bodies
- Implementation of the recommendations of the Browne Review of University Fees and Funding
- Competition from other providers, if the government opens up the market
- Funding of public sector pension schemes, and phasing out of 'default' retirement age
- The dissolution of the Regional Development Agencies, changes to the Strategic Health Authorities, and establishment of the new Local Enterprise Partnership
- Possible changes to immigration controls, impacting on the recruitment of international students
- Changes in research funding, likely to involve greater concentration of government funding.

Corporate Activity to Maintain Financial Stability

- Prioritise financial stability, which will allow us to make considered responses
- Extensive scenario planning for the outcomes of the CSR and the Browne Review
- Continue to increase student numbers wherever possible, and place greater emphasis on STEM subjects
- Continue to work closely with our HEBP partners, and investigate strategic partnerships with private providers
- Focus on expanding services which are not dependent on public sector support (for example, consultancy and commercial research)
- Delivery of the 37-point action plan for responding to funding reductions.

Conclusions

The University's academic activities, together with factors likely to affect its future development, performance and position, are set out in this Operating and Financial Review.

The University has considerable financial resources, as well as contracts with a number of customers and suppliers across different geographic areas and industries.

As a consequence, the Board of Governors believes that the University is well placed to manage its risks successfully despite the current uncertain economic outlook. The planned surpluses will provide a platform for a stable operating environment, which will enable the University to invest in new staff, and, as necessary, in the learning resources needed to provide an excellent student experience.

The Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the Governors continue to adopt the going concern basis in preparing the annual report and accounts.



Chair of Governors



Vice-Chancellor

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in the Combined Code on Corporate Governance issued by the Financial Reporting Council in June 2008. Its purpose is to help the reader of the accounts understand how the principles have been applied.

The University follows the Governance Code of Practice contained in the Guide for Members of Higher Education Governing Bodies in the UK which was issued by the Committee of University Chairs in March 2009.

Summary of the University's Structure of Corporate Governance

The University's Board of Governors is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The University's Board of Governors comprises up to 17 lay persons appointed under the University's Instrument and Articles of Government, four representatives of staff and students and the University's Chief Executive, the Vice-Chancellor. The role of Chair of the Board of Governors is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Board of Governors is ultimately responsible for all activities of the University. By the Instrument and Articles of Government, and under the Financial Memorandum with HEFCE, the Board of Governors is responsible for the ongoing strategic direction of the University, approval of major developments, and the receipt of regular reports from the Vice-Chancellor and the Board's committees on the operations of its business and its subsidiary companies. The Board of Governors meets approximately six times a year, and has several committees, including a Resources Committee, a Nomination Committee, a Remuneration Committee, an Audit Committee and an Employment Policy Committee. All of these Committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors.

The Resources Committee *inter alia* recommends to the Board of Governors the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Employment Policy Committee determines the framework within which senior executives will manage the University's employees.

The Nomination Committee considers nominations for vacancies on the Board.

The Remuneration Committee determines the remuneration of the six holders of senior posts.

The Audit Committee meets three times a year and is responsible for meeting with the external auditors to discuss audit findings, and with the internal auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's response and implementation plans. The members of this Committee also receive and consider reports from HEFCE as they affect the University's business and monitor adherence with the regulatory requirements. They review the University's annual financial statements together with the accounting policies. While senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee and, from time to time, the Committee meets with the external auditors or the internal auditors on their own for independent discussions.

Responsibilities of the Board of Governors

In accordance with the University's Instrument and Articles of Government, the Board of Governors is ultimately responsible for the management of the affairs of the University, including ensuring an effective system of financial control.

The Board of Governors is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University, and for enabling it to ensure that the *Financial Statements* are prepared in accordance with the University's Instrument and Articles of Government, the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE and the Board of Governors of the University, the Board of Governors, 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 Board of Governors 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* and
- financial statements are prepared on the going concern basis, unless it is inappropriate to presume that the University will continue in operation. The Board of Governors is satisfied that the University 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 Board of Governors has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and any other conditions which HEFCE 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 and
- 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:

- clear definitions of the responsibilities of, and the authority delegated to, senior management and heads of academic and administrative departments
- a comprehensive medium- and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- regular reviews of key performance indicators and business risks, and monthly reviews of financial results involving variance reporting and updates of forecast out-turns
- 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 Board of Governors
- comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit Committee and the Board of Governors, and
- a professional internal audit team whose annual programme is approved by the Audit Committee.

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

Statement of Internal Control

The Board of Governors has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, whilst safeguarding the public and other funds and assets for which it is responsible in accordance with the responsibilities assigned to the governing body in the University's Instrument and Articles of Government 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 a continuous 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. This process has been in place for the year ended 31 July 2010 and up to the date of approval of the *Financial Statements* and accords with HEFCE guidance.

The Board of Governors, through the Audit Committee, has overall responsibility for reviewing the University's risk management strategy and ensuring that there is a sound approach to ensuring that this strategy is adopted and embedded consistently and effectively across each activity within the University.

The following key processes form part of the University's strategy to manage risk:

- the University has adopted a range of policies and procedures to reflect risk management principles
- a key element of the University's approach to risk management is clear reporting of the risk management policy, risk register and the processes in place to manage and mitigate risk

- a risk assessment framework is in place which forms the basis of risk assessment, identification and management
- a Risk Management Committee led by the Vice-Chancellor and reporting to the University's Corporate Executive Team oversees risk management across the University
- the University has a formal and structured Risk Management Policy to ensure that key risks are identified and managed consistently across the University
- the Risk Management Policy is reviewed on a regular basis
- a corporate risk register is in place and is reviewed at least annually
- the corporate risk register is supported by risk management statements in the development plans of each School and department, covering both corporate and operational risks
- responsibility for monitoring each key risk has been assigned to senior officers of the University with the Deputy University Secretary having day-to-day responsibility for risk management within the University
- the Audit Committee receives regular reports from the internal auditors which include an independent opinion on the adequacy and effectiveness of the University's risk management, governance, internal control and arrangements to provide value for money together with recommendations for improvement
- the Board of Governors receives regular reports from the Chair of the Audit Committee concerning internal control and it requires regular reports from senior managers on the steps they are taking to manage risk in their areas of responsibility including progress reports on key projects.

Independent Auditors' Report to the Board of Governors of Teesside University

We have audited the *Financial Statements* of Teesside University for the year ended 31 July 2010 which comprise the consolidated income and expenditure account, the statement of total recognised gains and losses, the consolidated and University balance sheets, the consolidated cash flow statement 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 Board of Governors in accordance with the Financial Memorandum dated June 2008. Our audit work has been undertaken so that we might state to the Board of Governors 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 Board of Governors and Auditors

The Board of Governors' responsibilities for preparing the annual report and the *Financial Statements* in accordance with the University's statutes, 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 Board of Governors' 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 Board of Governors' 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 annual report as described in the contents section 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 on 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 Board of Governors 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 only 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

Deloitte LLP
CHARTERED ACCOUNTANTS AND
STATUTORY AUDITORS
Leeds, England

30 NOVEMBER 2010

Statement of Principal Accounting Policies

Basis of Preparation

These *Financial Statements* have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with applicable accounting standards.

The *Financial Statements* are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of Consolidation

The consolidated *Financial Statements* include the University, its subsidiary undertakings and the Friends of the University of Teesside Trust for the financial year to 31 July 2010. Intra-group transactions are eliminated on consolidation.

The consolidated *Financial Statements* do not include those of the Students' Union because the University does not control those activities.

Income Recognition

Funding Council block grants are accounted for in the period to which they relate.

Tuition fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from grants, contracts and other services rendered is accounted for on an accruals basis and included to the extent of the completion of the contract or service concerned; any payments received in advance of such performance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes.

Donations which are to be retained for the benefit of the University are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the 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.

Increases or decreases in value arising on the revaluation or disposal of endowment assets, ie the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund and is reported in the statement of total recognised gains and losses.

Agency Arrangements

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Leases and Hire Purchase Contracts

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Taxation

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 Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478-488 of the Corporation Taxes Act 2010 (CTA 2010) (formerly enacted in section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or section 256 of the Taxation of Chargeable Gains Act to the extent that such income or gains are applied to exclusively charitable purposes.

All UK subsidiary companies are liable to corporation tax and value added tax in the same way as any other commercial organisation.

The University receives no similar exemption in respect of value added tax (VAT). Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Land and Buildings

Land and buildings are stated at valuation or cost. The basis of valuation, which was carried out by independent chartered surveyors, is a combination of depreciated replacement cost and open market value for existing use. Certain properties from which the University derives no economic benefit and which, in the opinion of the Board of Governors, have a value substantially less than their depreciated replacement cost were separately valued by the University.

On adoption of FRS 15, the University followed the transitional provision to retain the book value of land and buildings, the majority of which were revalued on 31 July 1997 by Storey Sons & Parker, Chartered Surveyors, but not to adopt a policy of revaluations of these properties in the future. These valuations are retained subject to the requirement to test assets for impairment in accordance with FRS 11.

Costs incurred in relation to a tangible fixed asset, after its initial purchase, are capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance; the cost of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other directly attributable costs incurred to 31 July 2010.

Depreciation

Freehold land is not depreciated. Freehold buildings are depreciated over their expected useful economic life to the University of between 15 and 50 years on the amount at which the tangible fixed asset is included in the balance sheet. Where material, a depreciable asset's anticipated useful economic life is reviewed annually and the accumulated and future depreciation adjusted in accordance with FRS 15.

No depreciation is charged on assets in the course of construction.

Acquisition with the Aid of Specific Grants

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated.

The related grants are credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

Repairs and Maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred. The University has a planned maintenance programme, which is reviewed on an annual basis.

Equipment and Furniture

Equipment and furniture costing less than £1,500 per individual item or group of related items is written off to the income and expenditure account in the period of acquisition. All other equipment is capitalised at cost. All assets are depreciated over their useful economic life as follows:

- motor vehicles – four years
- equipment and furniture – between three years and ten years.

Where equipment is acquired with the aid of specific grants, it is capitalised and depreciated in accordance with the policy set out above, with the related grant credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment. Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

Investments

Listed investments held as endowment assets are shown at market value. Investments in subsidiary undertakings and non-listed entities are shown at the lower of cost or net realisable value.

Current asset investments are included at the lower of cost and net realisable value.

Stock

Stock is stated at the lower of cost and net realisable value.

Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, cash at bank and deposits repayable on demand. Deposits are repayable on demand if they are available within 24 hours without penalty. No other investments, however liquid, are included as cash.

Liquid resources comprise term deposits. They exclude any such assets held as endowment asset investments.

Intra-group Transactions

Gains or losses on any intra-group transactions are eliminated in full. Amounts in relation to debts and claims between undertakings included in the consolidation are also eliminated.

Accounting for Charitable Donations

Unrestricted Donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment Funds

Where charitable donations are to be retained for the benefit of the University as specified by the donors, these are accounted for as endowments. There are two main types:

- restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income
- restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Accounting for Retirement Benefits

The University contributes to the Universities Superannuation Scheme (USS), the Local Government Superannuation Scheme (LGPS) and the Teachers' Pension Scheme (TPS). All schemes are defined benefit schemes which are contracted out of the Second State Pension (S2P).

The assets of the USS and TPS are held in separate trustee-administered funds. Because of the nature of the Schemes, the Schemes' assets are not hypothecated to individual institutions and Scheme-wide contribution rates are set. The University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of these Schemes on a consistent and reasonable basis and therefore as required by FRS 17 'Retirement Benefits', accounts for the Schemes as if they were defined contribution Schemes. As a result, the amount charged to the income and expenditure account represents the contributions payable to the Schemes in respect of the accounting period.

The University is able to identify its share of assets and liabilities of the LGPS and thus the University fully adopts FRS 17 'Retirement Benefits'.

Provisions

Provisions are recognised in the *Financial Statements* when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.



Consolidated Income and Expenditure Account

	Note	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Income			
Funding body grants	1	62,943	65,781
Tuition fees and education contracts	2	59,003	49,562
Research grants and contracts	3	3,168	4,318
Other income	4	15,874	13,587
Endowment and investment income	5	334	1,549
Total Income		141,322	134,797
Expenditure			
Staff costs	6	77,507	72,543
Other operating expenses		50,362	44,511
Depreciation	11	4,914	5,086
Interest and other finance costs	7	1,551	1,262
Total Expenditure	8	134,334	123,402
Surplus on continuing operations after depreciation of assets at valuation before and after tax		6,988	11,395
Surplus for the year transferred to accumulated income in endowment funds		(1)	(5)
Surplus for the year retained within general reserves	22	6,987	11,390

All items of Income and Expenditure arise from continuing operations.

Statement of Group Historical Cost Surpluses and Deficits

	Note	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Surplus on continuing operations after depreciation of assets at valuation, before and after tax		6,988	11,395
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	705	706
Historical cost surplus for the year before and after tax		7,693	12,101

Statement of Group Total Recognised Gains and Losses

	Note	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Surplus on continuing operations after depreciation of assets at valuation, before and after tax		6,988	11,395
Appreciation/(depreciation) of endowment assets	21	13	(17)
Actuarial gain/(loss) in respect of pension scheme	29	13,927	(9,092)
Total recognised gains relating to the year		20,928	2,286
Reconciliation			
Opening reserves and endowments		66,950	64,664
Total recognised gains for the year		20,928	2,286
Closing reserves and endowments		87,878	66,950

Balance Sheets as at 31 July

	Note	Consolidated		University	
		2010 £000	2009 £000	2010 £000	2009 £000
Fixed assets					
Tangible assets	11	107,240	96,523	107,484	96,767
Investments	12	30	30	35	30
		<u>107,270</u>	<u>96,553</u>	<u>107,519</u>	<u>96,797</u>
Endowment assets	13	<u>193</u>	<u>179</u>	<u>193</u>	<u>179</u>
Current assets					
Stock		34	34	34	34
Debtors	14	11,214	7,236	13,222	8,591
Investments	15	43,996	43,178	43,996	43,178
Cash at bank and in hand		12,808	12,789	12,375	12,342
		<u>68,052</u>	<u>63,237</u>	<u>69,627</u>	<u>64,145</u>
Less: creditors – amounts falling due within one year	16	<u>(27,767)</u>	<u>(29,999)</u>	<u>(30,132)</u>	<u>(31,703)</u>
Net current assets		<u>40,285</u>	<u>33,238</u>	<u>39,495</u>	<u>32,442</u>
Total assets less current liabilities		<u>147,748</u>	<u>129,970</u>	<u>147,207</u>	<u>129,418</u>
Less: creditors – amounts falling due after more than one year	17	<u>(10,832)</u>	<u>(11,708)</u>	<u>(10,832)</u>	<u>(11,708)</u>
Less: provisions for liabilities	19	<u>(13,746)</u>	<u>(5,398)</u>	<u>(13,746)</u>	<u>(5,398)</u>
Total net assets excluding pension liability		<u>123,170</u>	<u>112,864</u>	<u>122,629</u>	<u>112,312</u>
Net pension liability	29	<u>(16,680)</u>	<u>(28,288)</u>	<u>(16,680)</u>	<u>(28,288)</u>
Total net assets including pension liability		<u>106,490</u>	<u>84,576</u>	<u>105,949</u>	<u>84,024</u>

Balance Sheets as at 31 July continued

	Note	Consolidated		University	
		2010 £000	2009 £000	2010 £000	2009 £000
Deferred capital grants	20	18,612	17,626	18,612	17,626
Endowments	21				
Permanent		151	136	151	136
Expendable		42	43	42	43
		193	179	193	179
Reserves					
Income and Expenditure account excluding pension reserve		84,083	74,072	83,542	73,520
Pension reserve	29	(16,680)	(28,288)	(16,680)	(28,288)
Income and Expenditure account including pension reserve	22	67,403	45,784	66,862	45,232
Revaluation reserve	23	20,282	20,987	20,282	20,987
Total reserves		87,685	66,771	87,144	66,219
Total funds		106,490	84,576	105,949	84,024

The *Financial Statements* on pages 19 to 48 were approved by the Board of Governors on 12 November 2010 and were signed on its behalf by:



Chair of Governors



Vice-Chancellor

Consolidated Cash Flow Statement

	Note	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
Net cash inflow from operating activities	24	15,951	17,714
Returns on investments and servicing of finance	25	(131)	936
Capital expenditure and financial investment	25	(14,155)	(5,209)
Management of liquid resources	25	(818)	(6,178)
Financing	25	(831)	(770)
Increase in cash in the year		16	6,493
Reconciliation of net cash flow to movement in net funds			
Increase in cash in the year		16	6,493
Change in short-term deposits		818	6,178
Change in debt		831	770
Change in net funds		1,665	13,441
Net funds at 1 August		43,506	30,065
Net funds at 31 July	26	45,171	43,506

Notes to the Financial Statements, Year ended 31 July 2010

1 FUNDING BODY GRANTS

	2010	2009
	£000	£000
Recurrent grants		
Higher Education Funding Council (note 19)	54,051	55,492
Training and Development Agency	48	75
Specific grants		
Higher Education Innovation Fund	1,238	1,333
Teaching Capital Investment Fund	2,265	1,693
Strategic Development Fund	1,931	3,527
Teaching Quality Enhancement Fund	–	977
Access and Widening Participation	883	692
Joint Information Systems Committee Fund	54	58
Pathfinder	92	164
CETL	176	180
Economic Challenge Investment Fund	237	9
Graduate Internships	145	–
National Teaching Fellowships	25	28
Other	64	30
Deferred capital grants released in year		
Buildings (note 20)	200	200
Equipment (note 20)	1,534	1,323
	<u>62,943</u>	<u>65,781</u>

2 TUITION FEES AND EDUCATION CONTRACTS

	2010	2009
	£000	£000
Full-time home and EU students	22,468	18,765
Full-time international students	11,175	8,236
Part-time students	5,700	4,244
Education contracts	19,660	18,317
	<u>59,003</u>	<u>49,562</u>

3 RESEARCH GRANTS AND CONTRACTS

	2010	2009
	£000	£000
Research Councils	238	67
UK-based charities	563	523
UK central government	239	465
UK Health Service	612	530
European Commission	1,397	2,571
Other grants and contracts	119	162
	<hr/> 3,168	<hr/> 4,318

4 OTHER INCOME

	2010	2009
	£000	£000
Residences, catering and conferences	3,288	3,107
Other income-generating activities	1,598	1,302
Other grant income	6,561	5,378
Release from deferred capital grants (note 20)	392	552
Other income	4,035	3,248
	<hr/> 15,874	<hr/> 13,587

5 ENDOWMENT AND INVESTMENT INCOME

	2010	2009
	£000	£000
Income from permanent endowments (note 21)	6	8
Income from short-term investments	328	1,541
	<hr/> 334	<hr/> 1,549

6 STAFF

	2010	2009
	£000	£000
Staff costs		
Wages and salaries	61,793	58,928
Social security costs	4,824	4,631
Other pension costs (note 29)	8,924	8,297
Increase in the provision for enhanced pensions (note 19)	306	361
Restructuring costs	1,660	326
	77,507	72,543

Emoluments of the Vice-Chancellor

	£	£
Salary	227,654	224,859
Benefits in kind	13,178	12,726
	240,832	237,585
Pension costs (on the same basis as for other academic staff)	29,984	29,590
	270,816	267,175

Remuneration of other higher paid staff including benefits in kind and excluding employer's pension contributions

	2010	2009
	number	number
£100,000 - £109,999	2	2
£110,000 - £119,999	3	1
£120,000 - £129,999	–	2

The above disclosures include two members of staff who joined or left part way through the year and would have received remuneration in these bands in a full year.

Average staff numbers by major category (full-time equivalents)

Academic	697	683
Administrative and technical	831	796
Other	202	204
	1,730	1,683

7 INTEREST AND OTHER FINANCE COSTS

	2010	2009
	£000	£000
Bank loans not wholly repayable within five years	66	233
Finance leases	425	444
Pension finance cost	1,060	585
	<u>1,551</u>	<u>1,262</u>

8 ANALYSIS OF TOTAL EXPENDITURE BY ACTIVITY

	2010	2009
	£000	£000
Academic departments	70,873	64,551
Academic services	14,164	10,590
Research grants and contracts	2,820	3,961
Residences, catering and conferences	2,991	2,912
Premises	12,028	11,842
Administration	19,611	22,092
Other	11,847	7,454
	<u>134,334</u>	<u>123,402</u>

Other operating expenses include

External auditors' remuneration in respect of audit services	39	34
External auditors' remuneration in respect of non-audit services	17	–
Operating lease rentals		
Land and buildings	582	537
Equipment	158	77
	<u> </u>	<u> </u>

9 SURPLUS ATTRIBUTABLE TO PARENT UNDERTAKING

The surplus dealt with in the accounts of the parent undertaking was £6,998,000 (2009: £11,369,000).

10 INTANGIBLE FIXED ASSETS – GOODWILL

	Consolidated and University £000
Cost	
At 31 July 2010 and 31 July 2009	270
Amortisation	
At 31 July 2010 and 31 July 2009	270
Net Book Value	
At 31 July 2010 and 31 July 2009	–

11 TANGIBLE FIXED ASSETS

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
	£000	£000	£000	£000	£000
Consolidated Cost/Valuation					
At 1 August 2009	113,805	5,721	126	19,677	139,329
Additions in year	1,326	11,292	72	2,959	15,649
Transfers in year	391	(391)	–	–	–
Disposals in year	–	–	(70)	–	(70)
Written off in year	–	–	–	(2,938)	(2,938)
At 31 July 2010	115,522	16,622	128	19,698	151,970
Depreciation					
At 1 August 2009	25,469	–	105	17,232	42,806
Charge for year	2,943	–	19	1,952	4,914
Disposals in year	–	–	(52)	–	(52)
Written off in year	–	–	–	(2,938)	(2,938)
At 31 July 2010	28,412	–	72	16,246	44,730
Net Book Value At 31 July 2010	87,110	16,622	56	3,452	107,240
At 31 July 2009	88,336	5,721	21	2,445	96,523

11 TANGIBLE FIXED ASSETS continued

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
University	£000	£000	£000	£000	£000
Cost/Valuation					
At 1 August 2009	114,168	5,721	126	18,323	138,338
Additions in year	1,326	11,292	72	2,959	15,649
Transfers in year	391	(391)	–	–	–
Disposals in year	–	–	(70)	–	(70)
Written off in year	–	–	–	(2,938)	(2,938)
At 31 July 2010	115,885	16,622	128	18,344	150,979
Depreciation					
At 1 August 2009	25,469	–	105	15,997	41,571
Charge for year	2,943	–	19	1,952	4,914
Disposals in year	–	–	(52)	–	(52)
Written off in year	–	–	–	(2,938)	(2,938)
At 31 July 2010	28,412	–	72	15,011	43,495
Net Book Value					
At 31 July 2010	87,473	16,622	56	3,333	107,484
At 31 July 2009	88,699	5,721	21	2,326	96,767

Financial Reporting Standard 15 'Tangible Fixed Assets': the transitional rules set out in FRS 15 have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

11 TANGIBLE FIXED ASSETS continued

At 31 July 2010 the net book value of freehold land and buildings, for the group and the University, includes £1,120,000 (2009: £1,294,000) in respect of assets held under finance leases. The depreciation charge for the year on these assets was £174,000 (2009: £174,000).

Analysis of cost or valuation

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
	£000	£000	£000	£000	£000
Consolidated					
1997 Professional Valuation	48,167	–	–	–	48,167
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	64,711	16,622	128	19,698	101,159
At 31 July 2010	115,522	16,622	128	19,698	151,970
University					
1997 Professional Valuation	48,167	–	–	–	48,167
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	65,074	16,622	128	18,344	100,168
At 31 July 2010	115,885	16,622	128	18,344	150,979

Asset revaluations

The majority of land and buildings held at 31 July 1997 were revalued at that date by Storey Sons & Parker, Chartered Surveyors. The basis of valuation was a combination of depreciated replacement cost and open market value for existing use and the valuation has not been updated. Certain properties, which in the opinion of the Governors have had a permanent diminution in value due to a significant reduction in use by the University and which in their opinion have a value substantially less than their depreciated replacement cost, were separately valued by the University.

If the freehold land and buildings had not been revalued they would have been included at the following amounts:

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Cost	90,180	88,463	90,484	88,767
Accumulated depreciation and impairment	(23,347)	(21,109)	(23,347)	(21,109)
Net book value	66,833	67,354	67,137	67,658

12 FIXED ASSET INVESTMENTS

	Other Investments £000		
Consolidated			
Cost			
At 31 July 2010 and 31 July 2009	30		

	Other Investments £000	Subsidiary Undertakings £000	Total £000
University			
Cost			
At 1 August 2009	30	–	30
Additions in year	–	5	5
	-----	-----	-----
At 31 July 2010	30	5	35
	-----	-----	-----

The University's subsidiary undertakings and its percentage shareholding in each are as follows:

Subsidiary Undertaking	Nature of Business	Shareholding
University of Teesside Enterprises Limited (Registered in England and Wales)	Commercial activities, enterprise, trading and liaison with industry and commerce.	Limited by guarantee
Teesnap Limited (Registered in England and Wales)	To provide and promote educational and training services relating to nursing, midwifery and associated professions and/or professions allied to medicine and to provide management services related to the aforementioned.	100% Ordinary Shares (Issued share capital – £100)
Teesside (Beijing) Education Consulting Co Ltd (Wholly foreign-owned enterprise of the People's Republic of China)	Provision of consultation services and foreign communication and exchange in relation to education.	100% registered capital (15% paid-up) (Registered capital RMB 300,000)

The University also consolidates The Friends of the University of Teesside Trust, an independent trust which may provide funds for the assistance and benefit for educational purposes of the University and for other charitable purposes which are connected with and acceptable to the University.

13 ENDOWMENT ASSETS**Consolidated
and University
£000**

At 1 August 2009	179
Increase in market value of investments	17
Decrease in cash balances held for endowment funds	(3)

At 31 July 2010**193**

Valuation at 31 July 2010 £000	Valuation at 31 July 2009 £000
---	--------------------------------------

Fixed interest stocks	5	13
Equities	113	88
Bank balances	75	78

Total endowment asset investments**193** 179**Fixed interest stocks and equities at cost****99** 135**14 DEBTORS**

	Consolidated		University	
	2010 £000	2009 £000	2010 £000	2009 £000
Debtors	6,942	3,710	6,741	3,545
Prepayments and accrued income	4,272	3,523	4,220	3,492
Amounts due from subsidiary undertakings	–	–	2,261	1,554
Other debtors	–	3	–	–
	11,214	7,236	13,222	8,591

15 INVESTMENTS

	Consolidated and University	Consolidated and University
	2010	2009
	£000	£000
UK Government Treasury Bills	9,996	20,178
Deposits maturing in one year or less	34,000	23,000
	<hr/>	<hr/>
	43,996	43,178
	<hr/>	<hr/>

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority with more than 24 hours maturity at the balance sheet date. The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

At 31 July 2010 the weighted average interest rate of these fixed rate deposits was 1.02% and the remaining weighted average period for which the interest rate is fixed on these deposits was 81 days. The fair value of these deposits was not materially different from the book value.

16 CREDITORS – AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Mortgages and unsecured loans	642	642	642	642
Obligations under finance leases	234	189	234	189
Payments received on account	11,044	13,962	8,852	10,466
Creditors	5,933	5,255	5,920	5,252
Social security and other taxation payable	2,111	1,782	2,101	1,782
Accruals and deferred income	7,803	8,169	7,783	8,122
Amounts due to subsidiary undertakings	–	–	4,600	5,250
	<hr/>	<hr/>	<hr/>	<hr/>
	27,767	29,999	30,132	31,703
	<hr/>	<hr/>	<hr/>	<hr/>

17 CREDITORS – AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		University	
	2010	2009	2010	2009
	£000	£000	£000	£000
Loans secured on residential and other property repayable by 2022	7,383	8,025	7,383	8,025
Obligations under finance leases (note 18)	3,449	3,683	3,449	3,683
	<hr/>	<hr/>	<hr/>	<hr/>
	10,832	11,708	10,832	11,708
	<hr/>	<hr/>	<hr/>	<hr/>

18 BORROWINGS**a Bank loans and overdrafts**

	Consolidated and University	Consolidated and University
	2010	2009
	£000	£000
Bank loans and overdrafts are repayable as follows:		
Within one year	642	642
Between one and two years	642	642
Between two and five years	1,926	1,926
In five years or more	4,815	5,457
	<hr/> 8,025 <hr/>	<hr/> 8,667 <hr/>

Bank loans include mortgages at 0.25% above Bank of England Base Rate and 0.3% above LIBOR, repayable by instalments and secured on freehold properties of the University.

b Finance leases

	Consolidated and University	Consolidated and University
	2010	2009
	£000	£000
The net finance lease obligations to which the University is committed are:		
Within one year	234	189
Between one and two years	285	234
Between two and five years	1,235	1,037
In five years or more	1,929	2,412
	<hr/> 3,683 <hr/>	<hr/> 3,872 <hr/>

The finance leases relate to academic and student accommodation.

19 PROVISIONS FOR LIABILITIES AND CHARGES

Consolidated and University	Enhanced pensions £000	HEFCE grant adjustment £000	Total £000
At 1 August 2009	5,398	–	5,398
Increase	306	8,400	8,706
Utilised in year	(358)	–	(358)
At 31 July 2010	5,346	8,400	13,746

Enhanced pensions

The pension provision is in respect of pension enhancements payable to staff who have taken early retirement. The assumptions for calculating this provision are as follows:

	31 July 2010	31 July 2009
Discount rate	4.4%	4.9%
Inflation	2.6%	2.9%

HEFCE grant adjustment

In July 2010, HEFCE requested a reconciliation of the University's two student data returns for 2008-09 (the Higher Education Early Statistics Survey 2008-09 (HESES08) return and the HESA Student Record). This exercise has not yet been concluded, but provisional results provided by HEFCE indicate a likely retrospective grant adjustment of £3.0m for 2008-09 (as a result of a combination of understated student non-completions and the recording of some distance learning students) and an adjustment of £0.8m on the University's grant allocation for 2009-10.

HEFCE has also recently undertaken an audit of the University's Higher Education Early Statistics Survey 2009-10 (HESES09) return. HEFCE's initial assessment of the funding consequences is that the fundable student numbers reported in HESES09 were also overstated, for similar reasons to those identified in the 2008-09 reconciliation, and that a grant adjustment of £4.6m may be applied to the University's income for 2009-10. The actual liability will not be formally confirmed until a final review is completed by HEFCE'S analytical services group, but management believes that the provision represents the maximum potential liability.

Recurrent grant from HEFCE has been reduced by £8.4m to reflect this provision.

20 DEFERRED CAPITAL GRANTS

Consolidated and University	HEFCE £000	Other Grants £000	Total £000
At 1 August 2009			
Buildings	5,694	10,168	15,862
Equipment	1,641	123	1,764
Total	7,335	10,291	17,626
Cash received and receivable			
Buildings	–	407	407
Equipment	1,813	892	2,705
Total	1,813	1,299	3,112

20 DEFERRED CAPITAL GRANTS continued

Consolidated and University	HEFCE £000	Other Grants £000	Total £000
Released to Income and Expenditure Account			
Buildings (notes 1 and 4)	200	281	481
Equipment (notes 1 and 4)	1,534	111	1,645
Total	1,734	392	2,126
At 31 July 2010			
Buildings	5,494	10,294	15,788
Equipment	1,920	904	2,824
Total	7,414	11,198	18,612

21 ENDOWMENTS

Consolidated and University	Restricted Permanent £000	Restricted Expendable £000	2010 Total £000	2009 Total £000
At 1 August 2009				
Capital	35	39	74	85
Accumulated income	101	4	105	106
	<u>136</u>	<u>43</u>	<u>179</u>	<u>191</u>
Investment income	6	–	6	8
Expenditure	(4)	(1)	(5)	(3)
	<u>2</u>	<u>(1)</u>	<u>1</u>	<u>5</u>
Increase/(decrease) in market value of investments	13	–	13	(17)
At 31 July 2010	151	42	193	179
Represented by				
Capital	47	39	86	74
Accumulated income	104	3	107	105
	<u>151</u>	<u>42</u>	<u>193</u>	<u>179</u>

22 INCOME AND EXPENDITURE ACCOUNT

	Consolidated £000	University £000
At 1 August 2009	45,784	45,232
Surplus retained for the year	6,987	6,998
Transfer from revaluation reserve	705	705
Actuarial gain in respect of pension scheme	13,927	13,927
At 31 July 2010	67,403	66,862

23 REVALUATION RESERVE

	Consolidated and University £000
At 1 August 2009	20,987
Transfer to Income and Expenditure Account	(705)
At 31 July 2010	20,282

The transfer to the Income and Expenditure Account is in respect of the excess depreciation as a result of the revaluation of freehold land and buildings.

24 RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2010 £000	2009 £000
Surplus after depreciation of assets at valuation and before tax	6,988	11,395
Depreciation	4,914	5,086
Deferred capital grants released to income	(2,126)	(2,075)
Investment income	(334)	(1,549)
Interest payable	491	677
Profit on sale of fixed assets	(4)	–
Pensions cost less contributions payable	2,319	1,601
(Increase)/decrease in stocks	–	10
(Increase)/decrease in debtors	(3,698)	611
(Decrease)/increase in creditors	(947)	1,946
Increase in provisions	8,348	12
Net cash inflow from operating activities	15,951	17,714

25 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2010	2009
	£000	£000
Returns on investments and servicing of finance		
Income from endowments	6	8
Interest received	356	1,688
Interest element of finance lease rental payments	(425)	(466)
Other interest paid	(68)	(294)
	<u>(131)</u>	<u>936</u>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(16,086)	(7,359)
Endowment funds invested	(35)	(13)
Sale of tangible fixed assets	22	–
Sale of endowment asset investments	31	13
Deferred capital grants received	1,913	2,150
	<u>(14,155)</u>	<u>(5,209)</u>
Management of liquid resources		
Net movement in short-term deposits	(818)	(6,178)
Financing		
Repayment of bank loan	(642)	(642)
Repayment of finance lease	(189)	(128)
	<u>(831)</u>	<u>(770)</u>

26 ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2009 £000	Cash Flows £000	Other Non-cash Changes £000	At 31 July 2010 £000
Cash at bank and in hand				
Endowment assets	78	(3)	–	75
Other	12,789	19	–	12,808
	<hr/>	<hr/>	<hr/>	<hr/>
	12,867	16	–	12,883
Short-term deposits	43,178	818	–	43,996
Debt due within 1 year	(642)	642	(642)	(642)
Debt due after 1 year	(8,025)	–	642	(7,383)
Finance leases	(3,872)	189	–	(3,683)
	<hr/>	<hr/>	<hr/>	<hr/>
	43,506	1,665	–	45,171
	<hr/>	<hr/>	<hr/>	<hr/>

27 LEASE OBLIGATIONS

	Consolidated and University 2010 £000	Consolidated and University 2009 £000
At 31 July the annual commitments under operating leases were as follows:		
Buildings		
Expiring within one year	875	583
Equipment		
Expiring within one year	–	–
Expiring between two and five years	117	42
	<hr/>	<hr/>
	992	625
	<hr/>	<hr/>

28 FUTURE CAPITAL COMMITMENTS

	Consolidated and University 2010 £000	Consolidated and University 2009 £000
Commitments contracted at 31 July	7,517	9,691
	<hr/>	<hr/>

29 PENSION SCHEMES

The two principal pension schemes for the University's staff are the Teachers' Pension Scheme England and Wales (TPS) and the Local Government Pension Scheme, established locally as the Teesside Pension Fund (TPF). One member of staff is a member of the Universities Superannuation Scheme.

The total pension cost for the University and its subsidiaries was:

	Year ended 31 July 2010 £000	Year ended 31 July 2009 £000
TPS: contributions paid	4,251	4,075
TPF: charge to the Income and Expenditure account	4,637	4,186
Contributions paid to other pension schemes	36	36
Total Pension Cost (note 6)	8,924	8,297

The assumptions and other data relevant to the determination of the contribution levels of the schemes are as follows:

	TPS	TPF
Investment returns per annum	6.5%	4.7% - 7.1%
Salary scale increase per annum	4.5%	5.4%
Pension increase per annum	Not disclosed	3.4%
Market value of assets at date of last valuation	£163,240m	£2,025m
MFR proportion of members' accrued benefits covered by the actuarial value of the assets	98%	98%

Teachers' Pension Scheme

TPS is actuarially valued not less than every four years by the Government Actuary. The last actuarial valuation was as at 31 March 2004. Contributions are paid by the University at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made from funds voted by Parliament. The contribution rate payable by the employer is 14.1% of pensionable salaries.

Under the definitions set out in Financial Reporting Standard 17 'Retirement benefits' (FRS 17), the TPS is a multi-employer defined benefit pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the Scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions as if it were a defined contribution scheme.

Teesside Pension Fund

TPF is 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. The contribution payable by the employer is 14.0% of pensionable salaries.

Under the definitions set out in FRS 17, the TPF is a multi-employer defined benefit pension scheme. In the case of the TPF, the actuary of the scheme has identified the University's share of its assets and liabilities as at 31 July 2010.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the Fund are required to act in the best interests of the Fund's beneficiaries. The appointment of trustees to the Fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the scheme after consultation with professional advisers.

The government has announced that it plans to increase future pensions in line with the consumer price index (CPI) rather than the retail price index (RPI). This change will affect all pension benefits earned to date (and future benefits) and is likely to have a material impact in reducing pension scheme liabilities. This change is considered to be a change of actuarial assumption and the credit of £4.4m has been reflected in the Statement of Recognised Gains and Losses as an actuarial gain to the extent that it relates to service prior to the current period.

29 PENSION SCHEMES continued

The material assumptions used by the actuary for FRS 17 at 31 July were:

	2010	2009
	%	%
Price increases	3.2	3.6
Salary increases	4.7	5.6
Pension increases	3.2	3.6
Discount rate	5.4	6.0

The current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement at age 65 are:

	2010	2009
	Years	Years
Retiring today		
Males	19.51	19.51
Females	22.55	22.55
Retiring in 10 years		
Males	20.41	20.41
Females	23.43	23.43

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the year. The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield respectively. The return on equities and property is assumed to be a margin above gilt yields.

The University's share of the assets in the TPF and the expected rates of return are as follows:

	2010		2009	
	Share of assets	Expected return	Share of assets	Expected return
	%	%	%	%
		at 1 August 2009		at 1 August 2008
Equities	81	7.4	79	7.6
Gilts	8	4.3	9	4.5
Other bonds	1	5.4	2	6.0
Property	4	6.9	3	7.1
Cash	6	3.0	7	3.0

29 PENSION SCHEMES continued

The following amounts at 31 July were measured in accordance with the requirements of FRS 17.

	2010	2009
	£000	£000
Analysis of the amount shown in the balance sheet		
University's estimated asset share	83,580	68,513
Present value of the University's estimated share of scheme liabilities	(100,260)	(96,801)
	<hr/>	<hr/>
Deficit in the scheme – (Net pension liability)	(16,680)	(28,288)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	4,637	4,186
Analysis of amount that is charged to interest payable		
Expected return on pension scheme assets	4,882	4,980
Interest on pension scheme liabilities	(5,942)	(5,565)
	<hr/>	<hr/>
Net charge	(1,060)	(585)
Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on the University's share of pension scheme assets	6,926	(7,035)
Changes in assumptions underlying the present value of the scheme liabilities	7,001	(2,057)
	<hr/>	<hr/>
Actuarial gain/(loss) recognised in STRGL	13,927	(9,092)
Movement in deficit during the year		
Deficit in the scheme at 1 August	(28,288)	(17,595)
Movement in year:		
Current service costs	(4,637)	(4,186)
Contributions	3,378	3,170
Other finance costs	(1,060)	(585)
Actuarial gain/(loss)	13,927	(9,092)
	<hr/>	<hr/>
Deficit in scheme at 31 July	(16,680)	(28,288)

29 PENSION SCHEMES continued

	2010	2009
	£000	£000
Analysis of the movement in the present value of the scheme liabilities		
At 1 August	96,801	84,800
Current service cost	4,637	4,186
Interest cost	5,942	5,565
Contributions by scheme participants	1,617	1,508
Actuarial gains and losses	(7,001)	2,057
Benefits paid less individual transfers in	(1,736)	(1,315)

At 31 July	100,260	96,801
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Analysis of movement in the market value of the scheme assets

At 1 August	68,513	67,205
Expected rate of return on scheme assets	4,882	4,980
Actuarial gains and losses	6,926	(7,035)
Contribution by the employer	3,378	3,170
Contributions by scheme participants	1,617	1,508
Benefits paid less individual transfers in	(1,736)	(1,315)

At 31 July	83,580	68,513
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Amounts for the current and previous four periods are as follows:

	2010	2009	2008	2007	2006
	£000	£000	£000	£000	£000
Defined benefit obligation	(100,260)	(96,801)	(84,800)	(81,133)	(79,014)
Scheme assets	83,580	68,513	67,205	64,974	56,211
Deficit	(16,680)	(28,288)	(17,595)	(16,159)	(22,803)
Experience adjustments on scheme liabilities	–	–	1,757	–	–
Experience adjustments on scheme assets	6,926	(7,035)	(5,314)	1,770	3,909

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses is £5,884,000 gain (2009: £8,043,000 loss).

Defined benefit scheme assets do not include any of the University's own financial instruments or any property occupied by the University.

The estimated employers' contribution to the scheme for the year ending 31 July 2011 is £3,651,000.

The actual return on scheme assets in the year was £11,808,000 (2009: £2,055,000 – negative return).

30 ACCESS FUNDS

	2010	2009
	£000	£000
HEFCE grants	626	607
Interest earned	1	12
	<hr/>	<hr/>
	627	619
Disbursed to students	(617)	(598)
	<hr/>	<hr/>
Balance unspent at 31 July	10	21
	<hr/>	<hr/>

HEFCE grants are available solely for students. The University acts only as paying agent.

The grants and related disbursements, to the extent of total access fund income, are therefore excluded from the Income and Expenditure Account.

31 RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 Related Party Disclosures.

The University paid £3,000 (2009: £3,000) to certain members of the Board of Governors as reimbursement of travel expenses. Governors did not receive any other payments.

The University has taken the exemption under FRS 8, relating to subsidiary undertakings where 100% or more of the voting rights are controlled within the group, not to disclose related party transactions.