



Governors' Report **and**
Financial Statements

03 - 04

Governors' Report and Financial Statements

2003-2004

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BOARD OF GOVERNORS

Independent Members

Mr Sandy Anderson (Deputy Chair)
Mr Jonathan Blackie (retired 19 March 2004)
Mr Neil Etherington
Mrs Margaret Fay
Mr John R Foster (retired 19 March 2004)
Mr John P Hackney (Chair)
Mr Ernie EJ Haidon
Mr John Irwin
Dr Iftikhar Lone
Mr Christopher Lord
Professor John D McDougall
Mr Keith Robinson
Mr Barry Shaw
Mr Tom Shovlin
His Honour Judge Leslie Spittle

Co-opted Members

Mr Brian Dinsdale
Mrs Pam Eccles
Ms Jackie Fisher (appointed 19 March 2004)
Mr Ken Jarrold (appointed 19 March 2004)
Mr Eric Lloyd
Dr Gus Montgomery
Mrs Alison Thain
Mrs Judyth J Thomas (appointed 19 March 2004)
Ms Pat White
Professor Dianne Willcocks (retired 19 March 2004)

Academic Board Member

Dr Barbara L McGuinness

Student Member

Ms Beth Beck (appointed 16 July 2004)
Mr Martin Ings (resigned 16 July 2004)

Vice-Chancellor and Chief Executive

Professor Graham Henderson

Secretary

Mr J Morgan McClintock

REPORT OF THE BOARD OF GOVERNORS

The Board of Governors submits the Annual Report and audited financial statements for the year ended 31 July 2004.

Constitution and Activities

The University is a Higher Education Corporation as defined under the Education Reform Act 1988 ('the Act').

The powers of Higher Education Corporations are defined in Section 124 of the Act and include the power to provide higher and further education and to carry out research and publish the results of the research as the University thinks fit.

The University was incorporated on 1 April 1989 and on that date all properties, rights and liabilities which had been used and/or held by Cleveland County Council for the purposes of the University were transferred to the University.

The University is also an exempt charity under the Act.

Scope of the Financial Statements

The financial statements presented by the Board of Governors comprise the results of the University, its trading subsidiaries and The Friends of the University of Teesside Trust. The subsidiaries and the Trust undertake activities which for commercial or legal reasons are more appropriately accounted for outside the University.

The Trust 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.

The whole of any taxable profits made by the subsidiaries are gift aided to the University.

Financial Results

The University's consolidated income, expenditure and results for the year ended 31 July 2004, are summarised as follows:

	2004	As restated 2003
	£000	£000
Income	80,668	72,370
Expenditure	(77,092)	(70,052)
Surplus after depreciation of assets at valuation before and after tax	3,576	2,318
Surplus on sale of property	—	773
Surplus after depreciation of assets at valuation, sale of property, before and after tax	3,576	3,091
Transfer from accumulated income within specific endowments	49	45
Surplus for the year retained within general reserves	3,625	3,136
Surplus for the year on an historical cost basis	4,282	4,542

Income has risen by almost 11.5 % largely as a result of increases in recurrent grant from HEFCE, other grant income and tuition fees and education contracts income associated with student growth. At the same time expenditure has increased by 10%. The major component being an increase in staff costs of £4.2 million (9.6%). Total staff costs represent 62.4% (2003 - 62.6%) of total expenditure. The increase in staff costs is due to pay inflation, an increase in staff numbers and the full year effect of increased employer contributions for both national insurance and the Teachers' Pension Scheme. Both increases came into effect from 1 April 2003.

The business of EPICC Limited, a university subsidiary company, was transferred to an external organisation, Centre for Process Innovation, on 28 May 2004 and EPICC has ceased to trade from that date. Its turnover to that date was £283,000, it had grant income of £351,000 and generated an operating profit of £2,000. At 31 July 2004 it had net assets of £27,000.

Capital Projects

The University has invested over £4.5 million in fixed assets during the year. The most significant component of this expenditure was almost £1.4 million in respect of the Olympia building bringing the total spent on this new Centre for Sport to over £6.5 million. This building opened at the beginning of the 2003/04 academic year and combines high quality recreational amenities of an international standard with state of the art teaching and research facilities.

In May 2004 a new finance system was implemented in all schools and departments throughout the University. The cost of this new system has been spread over the last two financial years.

The capital expenditure has been funded from a combination of HEFCE grants, European funding and the University's own resources.

Cash Flow

The group had a net cash inflow of £483,000 after taking account of a net cash outflow of almost £3.4 million in respect of fixed asset expenditure. Additionally a further £693,000 was invested in short term deposits.

At the balance sheet date cash at bank and in hand and short term deposits amounted to £12.6 million whilst long term debt, excluding finance leases, was £3.7 million.

Future Developments

The University has received a favourable outcome to the two most recent bids to HEFCE for growth in the provision of Foundation Degrees ('fd'). This has provided the University with a platform to extend fd provision by a further 1200 full time equivalent student numbers over the next three years. In support of its plans the University aims to create a distinct University Centre in each of its three partner Further Education institutions at Darlington, Hartlepool and Middlesbrough. In support of these plans a bid for funding from HEFCE's Strategic Development Fund has been finalised.

A further strategic focus of the University mission relates to the development of an Institute of Digital Innovation and the expansion and enhancement of the School of Computing. This will promote the University's excellent provision in digital technology and media and support the sub-regional and regional economies through education, training and knowledge transfer.

The University is currently finalising a bid, in partnership with two other regional Universities and fifteen partner colleges, to establish a regional lifelong learning network. This will facilitate widening access and provide coherent progression opportunities for students in the region.

Post Balance Sheet Event

During the year the University announced that one of its subsidiary companies, the Virtual Reality Centre at Teesside Limited, would cease to trade during 2004/05. The turnover for this subsidiary for the year ended 31 July 2004 was £304,000, its operating profit was £nil and it had net liabilities of £299,000.

Employment of Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the University continues and that appropriate training is arranged. It is the policy of the University that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee Involvement

The University places considerable value on the involvement of its employees and on good communication with them. A regular official newsletter is made available to all staff and there is a University-wide systematic staff briefing scheme. Staff are encouraged to participate in formal and informal consultation at University, School and Department level, sometimes through the membership of formal Committees. The University has a Staff Development Unit which is responsible for providing a range of training for each staff group.

The University is a holder of the Investor in People award.

Payment of Creditors

Except for separately negotiated agreements, it is the University's policy to pay creditors thirty days after the date of the invoice. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms.

Financial Strategy

The key objectives of the University's financial strategy are to:

- ensure the on-going financial viability of the University;
- ensure the efficient and effective use of the University's assets and funds;
- maintain the University's net current assets at over £2 million, and to maintain liquidity at not less than 40 days expenditure;
- generate an annual operating surplus of at least £0.5 million.

Auditors

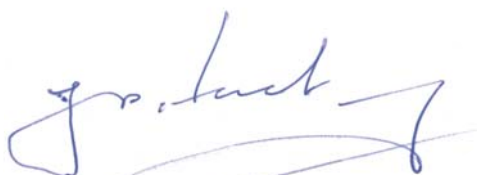
RSM Robson Rhodes LLP have indicated their willingness to continue in office and a resolution proposing their re-appointment will be proposed at the meeting of the Board of Governors on 17 December 2004.

Conclusion

The University remains committed to maintaining its sound financial position to enable it to meet its strategic vision.

The Board of Governors would like to take this opportunity to thank all of the staff for their continued support and hard work.

By Order of the Board

A handwritten signature in blue ink, appearing to read 'J. Luck', with a long horizontal flourish extending to the right.

17 December 2004

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 Section I of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

Responsibilities of the Board of Governors

In accordance with the University of Teesside's Instrument and Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the University, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University's Instrument and Articles of Government, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England ('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 the HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud; 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 outturns;
- 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 financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

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 twenty 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 the Higher Education Funding Council for England, 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 five 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 the Higher Education Funding Council for England 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 on their own for independent discussions.

Statement of Internal Control

The Board of Governors is of the view that there is an ongoing process for identifying, evaluating and managing the university's significant risks, that has been in place for the year ended 31 July 2004 and up to the date of approval of the annual report and accounts, that it is regularly reviewed by the Governing Body and that it accords with the internal control guidance for the directors on the Combined Code as deemed appropriate for higher education.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The Board of Governors has also established a Risk Management Committee comprising the senior management team and other senior managers. The senior management team and the Audit Committee also receive regular reports from internal audit and the Risk Management Committee which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control. The Board of Governors' agenda includes a regular item for consideration of risk and control and receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its December 2004 meeting, the Board of Governors carried out the annual assessment for the year ended 31 July 2004 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2004.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF TEESSIDE

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and the accounting policies set out in the statement of accounting policies.

This report is made solely to the Board of Governors of the University of Teesside, as a body, in accordance with the Higher Education Funding Council for England Code of Practice.. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's 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 University and the University's Board of Governors, for our audit work, for this report or for the opinions we have formed.

Respective Responsibilities of the Board of Governors and Auditors

As described on page 7 the Board of Governors is responsible for preparing the financial statements. Our responsibilities as independent auditors are established by statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions. We also report to you whether income from funding bodies, 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 and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

We also report to you if, in our opinion, the Report of the Board of Governors is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Report of the Board of Governors 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 other information.

Basis of Opinion

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

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

Opinion

In our opinion:

- a the financial statements give a true and fair view of the state of affairs of the University and of the group at 31 July 2004 and of the group's surplus of income over expenditure and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education;
- b in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- c in all material respects, income has been applied in accordance with the University's statutes and, where appropriate, with the financial memoranda dated August 2000 and 1 October 2003 with the Higher Education Funding Council for England and in accordance with the terms and conditions of the funding agreement dated July 1996 between the Teacher Training Agency and the University.



RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Leeds 17 December 2004

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and applicable Accounting Standards.

(b) Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University, its subsidiary undertakings and The Friends of the University of Teesside Trust for the financial year to 31 July.

The financial statements of the University of Teesside Union are not consolidated as it is a separately constituted organisation in which the University has no financial interest and no control or significant influence over policy decisions.

(c) Recognition of Income

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs.

Non-recurrent grants from Funding Councils or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

(d) Intangible Fixed Assets

(1) Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. The amortisation period is 10 years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(e) Tangible Fixed Assets

(1) Land and Buildings

The majority of freehold land and buildings are stated at valuation. These properties were valued by Storey Sons & Parker, Chartered Surveyors, as at 31 July 1997 in accordance with RICS Statements of Asset Valuation Practice and Guidance Notes. The basis of valuation was depreciated replacement cost and the valuation has not been updated. 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. Additions since 1 August 1997 are shown at cost.

The University has adopted the transitional provisions of Financial Reporting Standard 15 and has determined not to subsequently revalue its fixed assets from the amounts currently included in the financial statements.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as below. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the buildings on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

(2) Equipment

Furniture and equipment are included at cost.

Furniture and equipment costing less than £1,500 per individual item or group of related items is written off in the year of acquisition. All other items of furniture and equipment are capitalised.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as below. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the equipment on a basis consistent with the depreciation policy.

(3) Vehicles

Vehicles are included at cost.

(4) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation of each asset, evenly over its expected useful life, as follows:

Freehold buildings	Remaining life of each building between 5 and 50 years or finance lease term, if shorter	
Equipment and Furniture	10% - 33.33%	per annum
Vehicles	25%	per annum

Assets in the course of construction are not depreciated until brought into use.

Depreciation is provided in the year of acquisition and not in the year of disposal.

(f) Stocks

Stocks are stated at the lower of cost and net realisable value.

(g) Pensions

Retirement benefits for employees of the University are provided by defined benefit schemes which are funded by contributions from the University and employees. The two principal pension schemes are the Teachers' Pension Scheme for academic staff and the Teesside Pension Fund for non-academic staff. These are both independently administered schemes. A small number of staff are members of the National Health Service Scheme.

Contributions to the schemes are charged to the income and expenditure account so as to spread the cost of the pensions over the employees' expected remaining working lives with the University. In addition, provision is made for enhanced pensions where employees have taken early retirement.

(h) Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the ICTA Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

(i) Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease and are depreciated in accordance with the policy set out above. The excess of lease payments over recorded lease obligations is treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

(j) Restatement of Comparatives

Endowment and investment income in the previous year has been restated as a result of the publication of the new SORP which became effective for accounting periods ending on 31 July 2004 and thereafter. The retained surplus and net assets at 31 July 2003 remain unchanged.

Consolidated Income and Expenditure Account, Year ended 31 July 2004

		2004	As restated 2003
	Note	£000	£000
INCOME			
Funding Council grants	1	38,149	34,732
Tuition fees and education contracts	2	26,649	23,418
Research grants and contracts	3	1,278	1,653
Other income	4	14,137	12,154
Endowment and investment income	5	455	413
Total Income		80,668	72,370
EXPENDITURE			
Staff costs	6	48,085	43,875
Other operating expenses	7	24,588	21,921
Depreciation	9	3,750	3,556
Interest payable	8	669	700
Total Expenditure	9	77,092	70,052
Surplus on continuing operations after depreciation of fixed assets at valuation before and after tax		3,576	2,318
Surplus on sale of property		–	773
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		3,576	3,091
Transfer from accumulated income within specific endowments		49	45
Surplus for the year retained within general reserves		3,625	3,136

The Consolidated Income and Expenditure Account of the University, its subsidiary undertakings and The Friends of the University of Teesside Trust relates to continuing operations.

Consolidated Statement of Historical Cost Surpluses and Deficits, Year ended 31 July 2004

		2004	As restated 2003
	Note	£000	£000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		3,576	3,091
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	706	751
Realisation of revaluation surplus on property sold in the year		—	700
Historical cost surplus for the year before and after tax		4,282	4,542

Statement of Total Recognised Gains and Losses, Year ended 31 July 2004

		2004	As restated
	Note	£000	2003 £000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		3,576	3,091
Depreciation of endowment asset investments	14	(4)	(1)
New endowments	21	26	16
		—	—
Total recognised gains relating to the year		3,598	3,106
		—	—
Reconciliation			
Opening reserves and endowments		54,838	51,732
Total recognised gains and losses for the year		3,598	3,106
		—	—
Closing reserves and endowments		58,436	54,838
		—	—

Balance Sheets as at 31 July 2004

	Note	Consolidated		University	
		2004	2003	2004	2003
		£000	£000	£000	£000
Fixed Assets					
Intangible assets	11	–	216	–	216
Tangible assets	12	73,588	72,800	73,832	73,165
Investments	13	30	30	880	880
		<u>73,618</u>	<u>73,046</u>	<u>74,712</u>	<u>74,261</u>
Endowment Assets	14	<u>249</u>	<u>276</u>	<u>249</u>	<u>276</u>
Current Assets					
Stocks		38	41	38	41
Debtors	15	10,623	6,957	16,028	15,883
Investments		9,040	8,347	9,040	8,347
Cash at bank and in hand		3,587	2,538	53	109
		<u>23,288</u>	<u>17,883</u>	<u>25,159</u>	<u>24,380</u>
Creditors - Amounts falling due within one year	16	<u>(13,786)</u>	<u>(11,488)</u>	<u>(14,918)</u>	<u>(16,050)</u>
Net current assets		<u>9,502</u>	<u>6,395</u>	<u>10,241</u>	<u>8,330</u>
Total assets less current liabilities		<u>83,369</u>	<u>79,717</u>	<u>85,202</u>	<u>82,867</u>
Creditors - Amounts falling due after more than one year	17	<u>(7,717)</u>	<u>(7,942)</u>	<u>(10,380)</u>	<u>(11,146)</u>
Provisions for liabilities and charges	19	<u>(4,999)</u>	<u>(5,274)</u>	<u>(4,999)</u>	<u>(5,274)</u>
NET ASSETS		<u>70,653</u>	<u>66,501</u>	<u>69,823</u>	<u>66,447</u>

Balance Sheets as at 31 July 2004 continued

	Note	Consolidated		University	
		2004	2003	2004	2003
		£000	£000	£000	£000
Deferred capital grants	20	12,217	11,663	12,217	11,662
Endowments					
Specific	21	249	276	249	276
Reserves					
Revaluation reserve	22	24,534	25,240	24,534	25,240
Income and Expenditure account	23	33,653	29,322	32,823	29,269
Total Reserves		58,187	54,562	57,357	54,509
TOTAL		70,653	66,501	69,823	66,447

The financial statements on pages 12 to 43 were approved by the Board of Governors on 17 December 2004 and were signed on its behalf by:



Chair of Governors



Vice-Chancellor

Consolidated Cash Flow Statement, Year ended 31 July 2004

	Note	2004	2003
		£000	£000
Cash flow from operating activities	26	5,045	7,219
Returns on investments and servicing of finance	27	(286)	(363)
Capital expenditure and financial investment	27	(3,358)	(5,434)
Management of liquid resources	27	(693)	(347)
Financing	27	(225)	(100)
Increase in cash in the year		483	975

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

Increase in cash in the year		483	975
Increase in short-term deposits		693	347
Cash outflow from repayment of debt		225	100
Movement in net debt		1,401	1,422
Net funds at 1 August 2003		2,860	1,438
Net funds at 31 July 2004	28	4,261	2,860

Notes to the Financial Statements, Year ended 31 July 2004

(1) FUNDING COUNCIL GRANTS

	HEFCE	TTA	TOTAL	
	2004	2004	2004	2003
	£000	£000	£000	£000
Recurrent grant	33,343	76	33,419	30,681
Specific grants	4,347	–	4,347	3,633
Deferred capital grants released in year (note 20)				
Buildings	153	–	153	153
Equipment	230	–	230	265
	38,073	76	38,149	34,732

(2) TUITION FEES AND EDUCATION CONTRACTS

	2004	2003
	£000	£000
Full-time students fees	8,127	7,382
Full-time students charged overseas fees	1,680	1,269
Part-time students fees	2,005	1,882
	11,812	10,533
Total fees paid by or on behalf of individual students	14,837	12,885
Education contracts	26,649	23,418

(3) RESEARCH GRANTS AND CONTRACTS

	2004	2003
	£000	£000
Research Councils	26	162
UK based charities	157	150
UK Central government	576	393
UK Health Service	109	324
European Commission	318	448
Other grants and contracts	92	176
	1,278	1,653

(4) OTHER INCOME

	2004	2003
	£000	£000
Residences, catering and conferences	2,745	2,666
Other income generating activities	1,637	2,173
Other grant income	6,049	4,200
Release from deferred capital grants (note 20)	433	407
Other income	3,273	2,708
	14,137	12,154

(5) ENDOWMENT AND INVESTMENT INCOME

		As restated
	2004	2003
	£000	£000
Income from specific endowment asset endowments (note 21)	12	12
Other interest receivable	443	401
	455	413

(6) STAFF

	2004	2003
	£000	£000
Staff Costs		
Wages and salaries	39,461	36,046
Social security costs	3,077	2,605
Other pension costs (note 30)	4,794	3,720
Increase in the provision for enhanced pensions (note 19)	250	1,209
Restructuring costs	503	295
	48,085	43,875

The emoluments of the current Vice-Chancellor for the year ended 31 July 2004 (for 4 months ended 31 July 2003) were:

	£	£
Remuneration	135,000	40,000
Benefits in kind	4,053	480
	139,053	40,480
Pension costs (on the same basis as for other academic staff)	16,225	5,400
	155,278	45,880

(6) STAFF continued

The emoluments of the former Vice-Chancellor for the year ended 31 July 2004 (8 months ended 31 March 2003) were:

Remuneration	–	87,667
Benefits in kind	–	10,126
	<hr/>	<hr/>
	–	97,793
Pension costs (on the same basis as for other academic staff)	–	5,411
	<hr/>	<hr/>
	–	103,204
	<hr/>	<hr/>

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

	2004	2003
	Number	Number
£60,000 - £69,999	2	–
£70,000 - £79,999	–	2
£80,000 - £89,999	3	1

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

Academic	563	552
Administrative and technical	697	657
Other	185	173
	<hr/>	<hr/>
	1,445	1,382
	<hr/>	<hr/>

(7) OTHER OPERATING EXPENSES

	2004	2003
	£000	£000
Residences, catering and conferences operating expenses	567	588
Operating lease rentals - land and buildings	615	588
Equipment and materials	3,404	3,168
Books and periodicals	1,139	1,035
Heat, light, water and power	710	603
Repairs and general maintenance	1,589	804
Grant to University of Teesside Union	510	494
Franchised courses	2,527	2,393
Communication	492	522
Travel and subsistence	3,629	2,742
Advertising and publicity	839	811
Auditors' remuneration - University	29	28
Auditors' remuneration - Subsidiary companies	6	8
Auditors' remuneration in respect of non-audit services	3	4
Long term maintenance and capital projects	1,036	1,257
Professional and consultancy fees	2,124	1,890
Training courses and conference fees	367	330
Loss on sale of fixed assets	8	7
Other expenses	4,994	4,649
	<hr/> 24,588 <hr/>	<hr/> 21,921 <hr/>

(8) INTEREST PAYABLE

	2004	2003
	£000	£000
Bank loans not wholly repayable within five years	184	215
Finance leases	485	485
	<hr/> 669 <hr/>	<hr/> 700 <hr/>

(9) ANALYSIS OF 2003/2004 EXPENDITURE BY ACTIVITY

	Staff costs	Other operating expenses	Depreciation	Interest payable	Total
	£000	£000	£000	£000	£000
Academic departments	28,622	9,748	614	—	38,984
Academic services	3,315	2,579	504	—	6,398
Research grants and contracts	954	457	46	—	1,457
Residences, catering and conferences	675	1,164	297	396	2,532
Premises	2,248	3,102	1,940	273	7,563
Administration	7,601	3,560	59	—	11,220
Other expenses	4,670	3,978	290	—	8,938
Total per Income and Expenditure Account	48,085	24,588	3,750	669	77,092

Of the total depreciation charge of £3,750,000, £174,000 relates to assets acquired under finance leases.

The depreciation charge has
been funded by:

	£000
Deferred capital grants released (note 20)	816
Revaluation reserve released (note 22)	706
General income	2,228
	<u>3,750</u>

(10) SURPLUS ATTRIBUTABLE TO PARENT UNDERTAKING

The surplus dealt with in the accounts of the parent undertaking was £2,848,000 (2003 - £3,101,000).

(11) INTANGIBLE FIXED ASSETS - GOODWILL

Consolidated and University	
	£000
Cost	
At 31 July 2004 and 31 July 2003	270
Amortisation	
At 1 August 2003	54
Provided during the year	216
At 31 July 2004	270
Net Book Value	
At 31 July 2004	–
At 31 July 2003	216

Goodwill has been fully amortised in the year as a result of an impairment review.

(12) TANGIBLE FIXED ASSETS

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
Consolidated	£000	£000	£000	£000	£000
Cost/Valuation					
At 1 August 2003	75,489	5,897	79	16,699	98,164
Additions in year	2,965	76	31	1,474	4,546
Transfers in year	5,860	(5,860)	–	–	–
Disposals in year	–	–	–	(20)	(20)
Written off in year	–	–	–	(619)	(619)
At 31 July 2004	84,314	113	110	17,534	102,071

(12) TANGIBLE FIXED ASSETS continued

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
	£000	£000	£000	£000	£000
Depreciation					
At 1 August 2003	10,636	–	46	14,682	25,364
Charge for year	2,162	–	21	1,567	3,750
Disposals in year	–	–	–	(13)	(13)
Written off in year	–	–	–	(618)	(618)
At 31 July 2004	12,798	–	67	15,618	28,483
Net Book Amounts					
At 31 July 2004	71,516	113	43	1,916	73,588
At 31 July 2003	64,853	5,897	33	2,017	72,800
	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
	£000	£000	£000	£000	£000
University					
Cost/Valuation					
At 1 August 2003	75,852	5,897	79	13,690	95,518
Additions in year	2,965	76	31	1,474	4,546
Transfers in year	5,860	(5,860)	–	–	–
Written off in year	–	–	–	(619)	(619)
At 31 July 2004	84,677	113	110	14,545	99,445
Depreciation					
At 1 August 2003	10,636	–	46	11,671	22,353
Charge for year	2,162	–	21	1,695	3,878
Written off in year	–	–	–	(618)	(618)
At 31 July 2004	12,798	–	67	12,748	25,613
Net Book Amounts					
At 31 July 2004	71,879	113	43	1,797	73,832
At 31 July 2003	65,216	5,897	33	2,019	73,165

Financial Reporting Standard No 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.

(12) TANGIBLE FIXED ASSETS continued

At 31 July 2004 the net book value of freehold land and buildings, for the group and the University, includes £2,164,000 (31 July 2003: £2,338,000) in respect of assets held under finance leases.

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	48,217	–	–	–	48,217
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	33,453	113	110	17,534	51,210
At 31 July 2004	84,314	113	110	17,534	102,071
University					
1997 Professional Valuation	48,217	–	–	–	48,217
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	33,816	113	110	14,545	48,584
At 31 July 2004	84,677	113	110	14,545	99,445

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 that of depreciated replacement cost 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	
	2004	2003	2004	2003
	£000	£000	£000	£000
Cost	58,922	50,097	59,226	50,401
Accumulated depreciation and impairment	(11,922)	(10,466)	(11,922)	(10,466)
Net book value	47,000	39,631	47,304	39,935

(13) INVESTMENTS

	Other Investments
Consolidated	£000
Cost	
At 31 July 2004 and 31 July 2003	30
	—

	Other Investments	Subsidiary Undertakings	Total
University	£000	£000	£000
Cost			
At 31 July 2004 and 31 July 2003	30	850	880
	—	—	—

The University's subsidiary undertakings (all of which are registered in England and Wales) and its percentage shareholding in each are as follows:

Subsidiary Undertaking	Nature of Business	Shareholding
University of Teesside Enterprises Limited	Commercial activities, enterprise, trading and liaison with industry and commerce.	Limited by guarantee
EPICC Limited	Until 27 May 2004 To improve competitiveness through collaboration on research, training, education and business support measures within the European process industries. From 28 May 2004 Dormant	Limited by guarantee
TEESNAP Limited	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
The Virtual Reality Centre at Teesside Limited	To provide services within the field of Virtual Reality to third parties.	100% Ordinary Shares
Roundbeat Limited	Dormant.	100% Ordinary Shares
Teesside Library Company Limited	To provide library services.	100% Ordinary Shares

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.

(14) ENDOWMENT ASSET INVESTMENTS

	Consolidated and University
	£000
At 1 August 2003	276
Additions	5
Disposals	(28)
Depreciation on disposals/revaluation	(4)
At 31 July 2004	249

	Valuation at 31 July 2004	Valuation at 31 July 2003
	£000	£000
Fixed interest stocks	59	62
Equities	67	72
Tax debtor	1	—
Bank balances	122	142
Total endowment asset investments	249	276
Fixed interest stocks and equities at cost	134	135

(15) DEBTORS

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Debtors	3,534	1,589	2,393	1,139
Prepayments and accrued income	6,434	4,612	6,208	4,229
Amounts due from subsidiary undertakings	—	—	7,427	10,515
Other debtors	655	756	—	—
	10,623	6,957	16,028	15,883

Included within amounts due from subsidiary undertakings is £2,663,000 (2003: £3,619,000) which is due after more than one year.

(16) CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank overdraft	546	—	546	—
Mortgages and unsecured loans	225	225	225	225
Payments received on account	4,754	2,913	3,590	2,510
Creditors	2,191	1,950	2,183	1,889
Social security and other taxation payable	1,698	1,716	1,678	1,709
Accruals and deferred income	4,372	4,684	4,279	4,478
Amounts due to subsidiary undertakings	—	—	2,417	5,239
	<u>13,786</u>	<u>11,488</u>	<u>14,918</u>	<u>16,050</u>

(17) CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Loans secured on residential and other property repayable by 2022	3,717	3,942	3,717	3,942
Obligations under finance leases (note 18)	4,000	4,000	4,000	4,000
Amounts due to subsidiary undertakings	—	—	2,663	3,204
	<u>7,717</u>	<u>7,942</u>	<u>10,380</u>	<u>11,146</u>

(18) BORROWINGS**a Bank loans and overdrafts**

	Consolidated and University 2004 £000	Consolidated and University 2003 £000
Bank loans and overdrafts are repayable as follows:		
In one year or less	771	225
Between one and two years	225	225
Between two and five years	675	675
In five years or more	2,817	3,042
	<hr/> 4,488 <hr/>	<hr/> 4,167 <hr/>

Bank loans include mortgages at 0.6% and 1% above LIBOR, repayable by instalments and secured on freehold properties of the University.

b Finance leases

	Consolidated and University 2004 £000	Consolidated and University 2003 £000
The net finance lease obligations to which the University is committed are:		
In five years or more	4,000	4,000
	<hr/> 4,000 <hr/>	<hr/> 4,000 <hr/>

The finance leases relate to academic and student accommodation.

(19) PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and University £000
At 1 August 2003	5,274
Utilised in year	(525)
Transfer from Income and Expenditure Account	250
	<hr/>
At 31 July 2004	4,999 <hr/>

The provision is in respect of pension enhancements payable to staff who have taken early retirement. The provision was recalculated at 31 July 2004 using the latest available actuarial tables.

(20) DEFERRED CAPITAL GRANTS

Consolidated	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2003			
Buildings	5,511	5,391	10,902
Equipment	513	248	761
	—	—	—
Total	6,024	5,639	11,663
	—	—	—
Cash Received and Receivable			
Buildings	—	1,073	1,073
Equipment	231	66	297
	—	—	—
Total	231	1,139	1,370
	—	—	—
Released to Income and Expenditure Account			
Buildings (notes 1 and 4)	153	181	334
Equipment (notes 1 and 4)	230	252	482
	—	—	—
Total	383	433	816
	—	—	—
At 31 July 2004			
Buildings	5,358	6,283	11,641
Equipment	514	62	576
	—	—	—
Total	5,872	6,345	12,217
	—	—	—

(20) DEFERRED CAPITAL GRANTS continued

University	Funding Council £000	Other Grants and Benefactions £000	Total £000
At 1 August 2003			
Buildings	5,511	5,391	10,902
Equipment	512	248	760
	<hr/>	<hr/>	<hr/>
Total	6,023	5,639	11,662
	<hr/>	<hr/>	<hr/>
Cash Received and Receivable			
Buildings	—	1,073	1,073
Equipment	231	66	297
	<hr/>	<hr/>	<hr/>
Total	231	1,139	1,370
	<hr/>	<hr/>	<hr/>
Released to Income and Expenditure Account			
Buildings	153	181	334
Equipment	230	251	481
	<hr/>	<hr/>	<hr/>
Total	383	432	815
	<hr/>	<hr/>	<hr/>
At 31 July 2004			
Buildings	5,358	6,283	11,641
Equipment	513	63	576
	<hr/>	<hr/>	<hr/>
Total	5,871	6,346	12,217
	<hr/>	<hr/>	<hr/>

(21) SPECIFIC ENDOWMENTS**Consolidated and University****£000**

At 1 August 2003	276
Additions	26
Depreciation of endowment asset investments	(4)
Income for year	12
Expenditure for year	(61)
	<hr/>
At 31 July 2004	249
	<hr/>

(22) REVALUATION RESERVE**Consolidated and University****£000**

At 1 August 2003	25,240
Transfer to Income and Expenditure Account	(706)
	<hr/>
At 31 July 2004	24,534
	<hr/>

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.

(23) INCOME AND EXPENDITURE ACCOUNT**Consolidated****University****£000****£000**

At 1 August 2003	29,322	29,269
Surplus after depreciation of assets at valuation and tax	3,625	2,848
Transfer from Revaluation Reserve	706	706
	<hr/>	<hr/>
At 31 July 2004	33,653	32,823
	<hr/>	<hr/>

(24) LEASE OBLIGATIONS

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Operating lease commitments in respect of land and buildings for the 2004/05 financial year, on leases expiring:				
Within one year	665	606	665	606
Between one and five years	—	12	—	—
In five years or more	—	—	—	—
	<u>665</u>	<u>618</u>	<u>665</u>	<u>606</u>

(25) FUTURE CAPITAL COMMITMENTS

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Commitments contracted at 31 July	1,186	4,510	1,186	4,510

(26) RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2004	2003
	£000	£000
Surplus before tax	3,576	3,136
Amortisation	216	27
Depreciation	3,750	3,556
Deferred capital grants released to income	(816)	(825)
Investment income	(455)	(458)
Interest payable	669	700
Loss/(profit) on sale of fixed assets	8	(766)
Decrease in stocks	3	6
(Increase)/decrease in debtors	(3,608)	869
Increase in creditors	1,977	263
(Decrease)/increase in provisions	(275)	711
Net cash inflow from operating activities	<u>5,045</u>	<u>7,219</u>

(27) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2004	2003
	£000	£000
Returns on investments and servicing of finance		
Income from endowments (note 21)	12	13
Interest received	384	323
Interest element of finance lease rental payments	(500)	(482)
Other interest paid	(182)	(217)
	<hr/>	<hr/>
Net cash outflow for returns on investments and servicing of finance	(286)	(363)
	<hr/>	<hr/>
Capital expenditure and financial investment		
Purchase of tangible fixed assets	(4,656)	(8,175)
Purchase of endowment asset investments	(4)	(16)
Sale of tangible fixed assets	–	1,493
Sale of endowment asset investments	8	2
Endowments received	26	16
Deferred capital grants received	1,268	1,246
	<hr/>	<hr/>
Net cash outflow for capital expenditure and financial investment	(3,358)	(5,434)
	<hr/>	<hr/>
Management of liquid resources*		
Net movement in short-term deposits	(693)	(347)
	<hr/>	<hr/>
Financing		
Repayment of bank loan	(225)	(100)
	<hr/>	<hr/>

*The University of Teesside includes as liquid resources term deposits of one year or less.

(28) ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2003 £000	Cash Flows £000	Other non-cash Changes £000	At 31 July 2004 £000
Cash in hand and at bank	2,538	1,049	–	3,587
Endowment assets	142	(20)	–	122
Overdraft	–	(546)	–	(546)
	<hr/> 2,680	<hr/> 483	<hr/> –	<hr/> 3,163
Short-term deposits	8,347	693	–	9,040
Debt due after 1 year	(3,942)	–	225	(3,717)
Debt due within 1 year	(225)	225	(225)	(225)
Finance leases	(4,000)	–	–	(4,000)
	<hr/> 2,860	<hr/> 1,401	<hr/> –	<hr/> 4,261

(29) MAJOR NON-CASH TRANSACTIONS

An additional provision of £250,000 has been provided in the year in respect of pension enhancements payable to staff who have taken early retirement.

(30) PENSION COSTS

The University participates in two main pension schemes, the Teesside Pension Fund and the Teachers' Pension Scheme.

Teesside Pension Fund (TPF)

The TPF is a funded defined benefit scheme in the UK.

SSAP 24

The pension cost is assessed every three years in accordance with the advice of a qualified independent actuary. A full actuarial valuation by the Fund's actuary was carried out as at 31 March 2001 and the assumptions and other data that have the most significant effect on the determination of contribution levels are set out below:

Actuarial method	Projected unit
Investment returns per annum - equities	6.75%
Investment returns per annum - bonds	5.75%
Pay increases per annum	4.80%
Price inflation/pension increases per annum	2.80%
Market value of scheme assets at date of last valuation	£1,102 million
Proportion of member's accrued benefits covered by the actuarial value of the assets	94%

As a result of this valuation the University's contributions were determined as continuing at 14.9% until 31 March 2005. The total pension cost for the University under this scheme was £2,185,000 (2003: £1,925,000). This includes £190,000 (2003: £168,000) outstanding contributions at the balance sheet date.

(30) PENSION COSTS continued**FRS 17**

An actuarial valuation for the purposes of Financial Reporting Standard 17: Retirement Benefits, was carried out at 31 July 2004 by a qualified independent actuary.

The major assumptions used by the actuary were:	31 July 2004	31 July 2003	31 July 2002
Inflation assumption	2.9%	2.6%	2.4%
Rate of increase in salaries	4.9%	4.6%	4.4%
Rate of increase in pensions in payment	2.9%	2.6%	2.4%
Discount rate	5.8%	5.5%	6.0%

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

	2004		2003		2002	
	Long term rate of return	Value at 31 July £000	Long term rate of return	Value at 31 July £000	Long term rate of return	Value at 31 July £000
	%		%		%	
Equities	7.9	877,000	8.0	759,400	8.0	705,588
Bonds	5.4	176,000	5.0	177,000	5.5	162,089
Property	6.7	69,000	6.0	55,500	6.0	50,660
Cash	4.5	112,000	3.5	94,400	4.0	125,000
		1,234,000		1,086,300		1,043,337

University's share of the total assets in the scheme	2.98%	2.91%	2.67%
--	-------	-------	-------

	31 July 2004 £000	31 July 2003 £000	31 July 2002 £000
University's estimated asset share	36,772	31,599	27,853
Present value of scheme liabilities	52,255	46,932	35,968
Present value of unfunded liabilities	1,041	—	—
	53,296	46,932	35,968
Deficit in the scheme - net pension liability	(16,524)	(15,333)	(8,115)

(30) PENSION COSTS continued

Under the transitional arrangements of FRS17, no provision has been made by the University for the institution's share of the deficit of the scheme. If provision were made, the following entries would be made:

Balance sheet presentation

	31 July 2004	31 July 2003	31 July 2002
	£000	£000	£000
Net assets excluding pension liability	70,653	66,501	63,287
Pension liability	(16,524)	(15,333)	(8,115)
Net assets including pension liability	54,129	51,168	55,172
Reserves note			
Income and expenditure reserve excluding FRS17 pension liability	33,653	29,322	24,735
Pension reserve	(16,524)	(15,333)	(8,115)
Income and expenditure reserve	17,129	13,989	16,620

Under the transitional arrangements of FRS17 the University's pension charge for the year, calculated under FRS17 assumptions, is not included in the financial statements (as this is currently calculated on a SSAP 24 basis). If the charge had been included on an FRS17 basis the following entries would be made:

Analysis of the amount charged to the income and expenditure account

	Year ended	Year ended
	31 July 2004	31 July 2003
	£000	£000
Service cost	2,418	1,636
Past service cost	38	—
Total operating charge	2,456	1,636

Analysis of the projected amount charged to other finance costs

	Year ended	Year ended
	31 July 2004	31 July 2003
	£000	£000
Expected return on employer's share of pension scheme assets	2,292	2,054
Interest on employer's share of pension scheme liabilities	(2,656)	(2,207)
Net cost	(364)	(153)

(30) PENSION COSTS continued**Amount recognised in the statement of total recognised gains and losses (STRGL)**

	Year ended 31 July 2004 £000	Year ended 31 July 2003 £000
Actual return less expected return on employer's share of pension scheme assets	545	(440)
Experience gains and losses arising on the employer's share of the scheme liabilities	(1,108)	(532)
Changes in assumptions underlying the present value of the scheme's liabilities	(64)	(6,385)
Actuarial loss recognised in the STRGL	(627)	(7,357)

Movement in deficit during the year

Employer's share of the deficit in the scheme at the beginning of the year	(15,333)	(8,114)
Movement in year:		
Current service cost	(2,418)	(1,636)
Contributions	2,191	1,927
Contributions in respect of unfunded benefits	65	—
Past service cost	(38)	—
Net return on assets	(364)	(153)
Actuarial loss	(627)	(7,357)
Employer's share of the deficit in the scheme at the end of the year	(16,524)	(15,333)

(30) PENSION COSTS continued**History of experience gains and losses**

	2004	2003	2002
Difference between the expected and actual return on scheme assets:			
Amount (£000)	545	(440)	(7,038)
Percentage of scheme assets	1.5%	(1.41%)	(25.3%)
Experience gains and losses on scheme liabilities:			
Amount (£000)	(1,108)	(530)	2,729
Percentage of the present value of the scheme liabilities	(2.1%)	(1.1%)	7.6%
Total amount recognised in the statement of total recognised gains and losses:			
Amount (£000)	(627)	(7,355)	(2,461)
Percentage of the present value of the scheme liabilities	(1.2%)	15.7%	(6.8%)

Teachers' Pension Scheme (TPS)

The TPS is a defined benefits scheme. However, it is not possible to identify each institutions' share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year as adjusted for the requirements of Statement of Standard Accounting Practice number 24: Accounting for Pension Costs. The Teachers' Pension Regulations require an annual account, the Teachers' Pension Account to be kept of receipts and payments (including the cost of pension increases).

The latest actuarial review of the scheme was at 31 March 2001. As a result of the 2002 Amendment Regulations this valuation was not based on the scheme maintained from 1 April 1996 (the start of the valuation period) to 31 March 2001. The actuarial review assumed that the balance in the Account as at 31 March 2001 should be such that, for this review, the value of the scheme assets was equal to the value of the scheme liabilities. The values being £142,880 millions. With effect from 1 April 2001, the scheme will be credited with a specific notional investment return.

The notional investment return used in this actuarial review was 3.5% above price increases. Earnings were assumed to grow at 1.5% above price increases.

As a result of this review the standard contribution rate from 1 April 2001 was assessed as 19.5% of salary of which the employer's share is 13.5%. This new rate was not payable until 1 April 2003. The rate paid for the period 1 August 2002 to 31 March 2003 was 14.35% of which 8.35% was payable by the employer.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal actuarial valuation is due as at 31 March 2006.

The total pension cost for the University under this scheme was £2,562,000 (2003: £1,791,000). This includes £216,000 (2003: £200,000) outstanding contributions at the balance sheet date.

The pension charge for the year includes an amount in respect of enhanced pension entitlements of staff taking early retirement. The calculation of the cost of early retirement provisions charged to the Income and Expenditure Account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns at 3.0% (2003 - 3.0%) in excess of price inflation.

An amount of £4,999,000 (2003: £5,085,000) is included in provisions for liabilities and charges representing the extent to which the capital cost charged exceeds actual payments made. The provision will be released against the cost to the University of enhanced pension entitlements over the estimated life expectancy of each relevant employee.

(31) ACCESS FUNDS

	2004	2003
	£000	£000
Funding Council grants	864	795
Interest earned	15	10
	<hr/>	<hr/>
	879	805
Disbursed to students	(660)	(749)
	<hr/>	<hr/>
Balance unspent/(overspent) at 31 July 2004	219	56
	<hr/>	<hr/>

Funding Council 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.

(32) ITT TRAINING BURSARIES GRANTS

	2004	2003
	£000	£000
Grant	–	180
Disbursed	–	(171)
	<hr/>	<hr/>
Funds to be repaid to the TTA	–	9
	<hr/>	<hr/>

ITT training bursaries grants are paid by the Teachers Training Agency and are solely for students. The University acts only as paying agent. The grant and related disbursements are therefore excluded from the income and expenditure account.

(33) 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 has taken the exemption under FRS 8, relating to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, not to disclose related party transactions.



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