

Governors' Report **and** Financial Statements

04/05

# Governors' Report and Financial Statements

2004 - 2005

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## BOARD OF GOVERNORS

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### Independent Members

Mr Sandy Anderson (Chair from January 2005)  
Mr Brian Dinsdale  
Mrs Pam Eccles (Vice-Chair)  
Mr Neil Etherington  
Mrs Margaret Fay  
Mr John P Hackney (Chair until retirement in January 2005)  
Mr Ernie EJ Haidon  
Mr John Irwin  
Mr Eric Lloyd  
Dr Iftikhar Lone  
Mr Christopher Lord (retired January 2005)  
Professor John D McDougall  
Mr Keith Robinson  
Mr Barry Shaw (retired January 2005)  
Mr Tom Shovlin  
His Honour Judge Leslie Spittle

### Co-opted Members

Mrs Liz Barnes (appointed May 2005)  
Ms Beth Beck  
Ms Jackie Fisher  
Mr Ken Jarrold  
Dr Barbara L McGuinness (retired May 2005)  
Dr Gus Montgomery  
Mr Peter Rowley (appointed January 2005)  
Mrs Alison Thain  
Mrs Judyth J Thomas  
Ms Pat White

### Vice-Chancellor and Chief Executive

Professor Graham Henderson

### Secretary

Mr J Morgan McClintock

## REPORT OF THE BOARD OF GOVERNORS

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The Board of Governors submits the Annual Report and audited financial statements for the year ended 31 July 2005.

### Constitution and Activities

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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.

The 75th Anniversary of the opening of the University's predecessor, Constantine College, was on 2 July 2005. The 75th year has been marked by a number of celebrations including the installation of a new Chancellor, Lord Sawyer of Darlington. The Board of Governors express their appreciation and thanks to Lord Brittan of Spennithorne for the service that he has given to the University during his tenure as Chancellor.

The Board also wish to record their gratitude for the major contribution to the University of John Hackney who retired from the Board during the year. His leadership of the Board, his guidance and encouragement of management and his support of the work of staff and students at numerous events over many years has been greatly appreciated.

### Scope of the Financial Statements

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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

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The University's consolidated income, expenditure and results, for the year ended 31 July 2005, are summarised as follows:

	<b>2005</b>	2004
	<b>£000</b>	£000
Income	<b>84,657</b>	80,668
Expenditure	<b>(81,851)</b>	(77,092)
	<hr/>	<hr/>
Surplus after depreciation of assets at valuation before and after tax	<b>2,806</b>	3,576
Surplus on sale of property	<b>169</b>	—
	<hr/>	<hr/>
Surplus after depreciation of assets at valuation, sale of property, before and after tax	<b>2,975</b>	3,576
Transfer from accumulated income within specific endowments	<b>21</b>	49
	<hr/>	<hr/>
Surplus for the year retained within general reserves	<b>2,996</b>	3,625
	<hr/>	<hr/>
Surplus for the year on an historical cost basis	<b>3,700</b>	4,282
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Income has risen by almost 5% largely as a result of an increase in the teaching grant from the Higher Education Funding Council for England (HEFCE) associated with additional student numbers. However, expenditure has increased by 6.2%; the major component of which being an increase in staff costs of £3.3 million (6.9%). This was due to a combination of inflationary pay increases and an increase in staff numbers. Total staff costs represent 62.8% (2004 - 62.4%) of total expenditure.

## Capital Projects

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The University has invested over £3.5 million in fixed assets during the year.

Over £600,000 has been spent on refurbishing science laboratories to bring the previously outdated facilities to a standard suitable for the modern integrated approach to the delivery of science education. Preparatory work, including the acquisition of land, started in respect of two new buildings, the Institute of Digital Innovation and the Centre for Creative Technologies, both of which are anticipated to be completed during 2006/07. Total expenditure in the year on these buildings amounted to £922,000. Equipment additions accounted for £1.3 million of the total expenditure.

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

## Cash Flow

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The group had a net cash inflow of £1.8 million after taking account of a net cash outflow of over £1.8 million in respect of fixed asset expenditure. A further £10.3 million was invested in short term deposits. This additional cash was made available from the draw down of a loan for £7.5 million and cash arising from the surplus. The loan will be used to fund the new buildings referred to above.

At the balance sheet date, cash at bank and in hand and short-term deposits amounted to £24.4 million whilst, long-term debt, excluding finance leases, was £10.6 million.

## Future Developments

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The University has been awarded additional student numbers (ASNs) for growth in 2006/07 in the provision of Foundation Degrees through our strategic alliance, the Higher Education Business Partnership, with further education colleges in the Tees Valley. An additional 250 ASNs have been allocated in respect of undergraduate provision. These ASNs are linked to the regional skills agenda of digitalisation, visualisation and art and design and the Centre for Creative Technologies, referred to earlier, will provide state-of-the-art facilities for these subject areas.

The Institute of Digital Innovation will assist the University in developing further its entrepreneurial and research excellence in this area. The local Regional Development Fund is supporting the construction of this building.

The higher education sector is entering a period of considerable change as variable fees and changes to student funding will be introduced from September 2006. The University has devoted considerable time and resources to developing a fees and bursaries strategy which it considers to be both fair and sustainable. Alongside the bursaries available to students depending on family income, the University will also be paying scholarships to students which will be linked to academic excellence.

## Employment of People with a Disability

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Applications for employment by people with a disability 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 people with a disability should, as far as possible, be identical to that of other employees.

At 31 July 2005 the University employed 45 people who have a disability.

## Employee Involvement

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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

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Except for separately negotiated agreements, it is the University's policy to pay creditors 30 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

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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

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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 16 December 2005.



## Conclusion

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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 black ink, appearing to read 'N. B. Anderson', with a long horizontal flourish extending to the right.

16 December 2005

## CORPORATE GOVERNANCE

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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

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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 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 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 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 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

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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 20 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 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 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 on their own for independent discussions.

## Statement of Internal Control

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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 2005 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 the Board 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 2005 meeting, the Board of Governors carried out the annual assessment for the year ended 31 July 2005 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2005.

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

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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

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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

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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

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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 2005 and of the group's surplus of income over expenditure, recognised gains and losses 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 memorandum dated 1 October 2003 with the Higher Education Funding Council for England.



RSM Robson Rhodes LLP  
Chartered Accountants and Registered Auditors  
Leeds 16 December 2005

# STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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## (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 consolidated financial statements do not include the income and expenditure of the University of Teesside Students' Union as the University does not exert significant control or dominant influence over policy decisions. The expenditure which is included in the Income and Expenditure Account of the University relates to the University's contribution to Union activities.

## (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 and the Universities Superannuation 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

As a result of a detailed review of other income certain figures have been reanalysed to research grants and contracts.

## Consolidated Income and Expenditure Account, Year ended 31 July 2005

		2005	2004
	Note	£000	£000
<b>INCOME</b>			
Funding Council grants	1	40,884	38,149
Tuition fees and education contracts	2	27,443	26,649
Research grants and contracts	3	2,012	1,899
Other income	4	13,546	13,516
Endowment and investment income	5	772	455
<b>Total Income</b>		<b>84,657</b>	<b>80,668</b>
<b>EXPENDITURE</b>			
Staff costs	6	51,413	48,085
Other operating expenses	7	25,943	24,588
Depreciation	9	3,688	3,750
Interest payable	8	807	669
<b>Total Expenditure</b>	9	<b>81,851</b>	<b>77,092</b>
Surplus on continuing operations after depreciation of fixed assets at valuation before and after tax		2,806	3,576
Surplus on sale of property		169	—
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		2,975	3,576
Transfer from accumulated income within specific endowments		21	49
<b>Surplus for the year retained within general reserves</b>		<b>2,996</b>	<b>3,625</b>

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 2005

		2005	2004
	Note	£000	£000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		2,975	3,576
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	674	706
Realisation of revaluation surplus on property sold in the year	22	51	—
Historical cost surplus for the year before and after tax		3,700	4,282

## Statement of Total Recognised Gains and Losses, Year ended 31 July 2005

		2005	2004
	Note	£000	£000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		2,975	3,576
Appreciation/(depreciation) of endowment asset investments	14	13	(4)
New endowments	21	3	26
		—	—
Total recognised gains relating to the year		2,991	3,598
		—	—
Reconciliation			
Opening reserves and endowments		58,436	54,838
Total recognised gains and losses for the year		2,991	3,598
		—	—
Closing reserves and endowments		61,427	58,436
		—	—

## Balance Sheets as at 31 July 2005

	Note	Consolidated		University	
		2005	2004	2005	2004
		£000	£000	£000	£000
<b>Fixed Assets</b>					
Intangible assets	11	—	—	—	—
Tangible assets	12	73,437	73,588	73,681	73,832
Investments	13	30	30	880	880
		<hr/>	<hr/>	<hr/>	<hr/>
		73,467	73,618	74,561	74,712
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Endowment Assets</b>	14	244	249	244	249
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Current Assets</b>					
Stocks		35	38	35	38
Debtors	15	11,131	10,623	15,338	16,028
Investments		19,374	9,040	19,374	9,040
Cash at bank and in hand		5,010	3,587	3,281	53
		<hr/>	<hr/>	<hr/>	<hr/>
		35,550	23,288	38,028	25,159
<b>Creditors - Amounts falling due within one year</b>	16	(15,129)	(13,786)	(17,850)	(14,918)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Net current assets</b>		20,421	9,502	20,178	10,241
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total assets less current liabilities</b>		94,132	83,369	94,983	85,202
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Creditors - Amounts falling due after more than one year</b>	17	(14,592)	(7,717)	(16,169)	(10,380)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Provisions for liabilities and charges</b>	19	(5,212)	(4,999)	(5,212)	(4,999)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>NET ASSETS</b>		74,328	70,653	73,602	69,823
		<hr/>	<hr/>	<hr/>	<hr/>

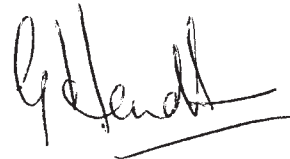
## Balance Sheets as at 31 July 2005 continued

	Note	Consolidated		University	
		2005	2004	2005	2004
		£000	£000	£000	£000
Deferred capital grants	20	12,901	12,217	12,901	12,217
Endowments					
Specific	21	244	249	244	249
Reserves					
Revaluation reserve	22	23,809	24,534	23,809	24,534
Income and Expenditure account	23	37,374	33,653	36,648	32,823
Total Reserves		61,183	58,187	60,457	57,357
TOTAL		74,328	70,653	73,602	69,823

The financial statements on pages 12 to 42 were approved by the Board of Governors on 16 December 2005 and were signed on its behalf by:



Chair of Governors



Vice-Chancellor

# Consolidated Cash Flow Statement, Year ended 31 July 2005

	Note	2005	2004
		£000	£000
Cash flow from operating activities	26	6,557	5,045
Returns on investments and servicing of finance	27	128	(286)
Capital expenditure and financial investment	27	(1,836)	(3,358)
Management of liquid resources	27	(10,334)	(693)
Financing	27	7,292	(225)
Increase in cash in the year		1,807	483

## RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

Increase in cash in the year	1,807	483
Increase in short-term deposits	10,334	693
Cash outflow from repayment of debt	208	225
New debt	(7,500)	—
Movement in net funds	4,849	1,401
Net funds at 1 August 2004	4,261	2,860
Net funds at 31 July 2005	28	9,110

# Notes to the Financial Statements, Year ended 31 July 2005

## (1) FUNDING COUNCIL GRANTS

	HEFCE	TTA	TOTAL	
	2005	2005	2005	2004
	£000	£000	£000	£000
Recurrent grant	37,114	91	37,205	33,419
Specific grants	3,041	–	3,041	4,347
Deferred capital grants released in year (note 20)				
Buildings	174	–	174	153
Equipment	464	–	464	230
	<b>40,793</b>	<b>91</b>	<b>40,884</b>	<b>38,149</b>

## (2) TUITION FEES AND EDUCATION CONTRACTS

	2005	2004
	£000	£000
Full-time students fees	8,223	8,127
Full-time students charged overseas fees	1,993	1,680
Part-time students fees	2,139	2,005
	<b>12,355</b>	<b>11,812</b>
Total fees paid by or on behalf of individual students		
Education contracts	15,088	14,837
	<b>27,443</b>	<b>26,649</b>

## (3) RESEARCH GRANTS AND CONTRACTS

	2005	2004
	£000	£000
Research Councils	57	26
UK based charities	131	161
UK Central government	631	1,025
UK Health Service	362	109
European Commission	738	490
Other grants and contracts	93	88
	<b>2,012</b>	<b>1,899</b>



**(4) OTHER INCOME**

	<b>2005</b>	2004
	<b>£000</b>	£000
Residences, catering and conferences	<b>2,658</b>	2,745
Other income generating activities	<b>1,223</b>	1,637
Other grant income	<b>5,464</b>	5,428
Release from deferred capital grants (note 20)	<b>281</b>	433
Other income	<b>3,920</b>	3,273
	<b>13,546</b>	13,516

**(5) ENDOWMENT AND INVESTMENT INCOME**

	<b>2005</b>	2004
	<b>£000</b>	£000
Income from specific endowment asset endowments (note 21)	<b>13</b>	12
Other interest receivable	<b>759</b>	443
	<b>772</b>	455

**(6) STAFF**

	<b>2005</b>	2004
	<b>£000</b>	£000
Staff Costs		
Wages and salaries	<b>42,361</b>	39,461
Social security costs	<b>3,290</b>	3,077
Pension costs (note 30)	<b>5,149</b>	4,794
Increase in the provision for enhanced pensions (note 19)	<b>523</b>	250
Restructuring costs	<b>90</b>	503
	<b>51,413</b>	48,085

The emoluments of the Vice-Chancellor for the year ended 31 July 2005 were:

	<b>£</b>	£
Remuneration	<b>153,333</b>	135,000
Benefits in kind	<b>10,787</b>	4,053
	<b>164,120</b>	139,053
Pension costs (on the same basis as for other academic staff)	<b>20,700</b>	16,225
	<b>184,820</b>	155,278

**(6) STAFF continued**

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

	<b>2005</b>	2004
	<b>Number</b>	Number
£70,000 - £79,999	<b>1</b>	—
£80,000 - £89,999	<b>3</b>	3
£90,000 - £99,999	<b>2</b>	—

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

Academic	<b>581</b>	563
Administrative and technical	<b>712</b>	697
Other	<b>187</b>	185
	<hr/> <b>1,480</b> <hr/>	<hr/> 1,445 <hr/>

**(7) OTHER OPERATING EXPENSES**

	<b>2005</b>	2004
	<b>£000</b>	£000
Residences, catering and conferences operating expenses	<b>636</b>	567
Operating lease rentals - land and buildings	<b>588</b>	615
Equipment and materials	<b>2,842</b>	3,404
Books and periodicals	<b>1,071</b>	1,139
Heat, light, water and power	<b>962</b>	710
Repairs and general maintenance	<b>1,419</b>	1,589
Grant to University of Teesside Union	<b>525</b>	510
Franchised courses	<b>2,716</b>	2,527
Communication	<b>559</b>	492
Travel and subsistence	<b>3,164</b>	3,629
Advertising and publicity	<b>1,007</b>	839
Auditors' remuneration - University	<b>30</b>	29
Auditors' remuneration - Subsidiary companies	<b>3</b>	6
Auditors' remuneration in respect of non-audit services	<b>4</b>	3
Long term maintenance and capital projects	<b>1,204</b>	1,036
Professional and consultancy fees	<b>3,147</b>	2,124
Training courses and conference fees	<b>439</b>	367
Loss on sale of fixed assets	<b>—</b>	8
Other expenses	<b>5,627</b>	4,994
	<hr/> <b>25,943</b> <hr/>	<hr/> 24,588 <hr/>

**(8) INTEREST PAYABLE**

	<b>2005</b>	2004
	<b>£000</b>	£000
Bank loans not wholly repayable within five years	<b>324</b>	184
Finance leases	<b>483</b>	485
	<b>807</b>	669

**(9) ANALYSIS OF 2004/2005 EXPENDITURE BY ACTIVITY**

	Staff costs	Other operating expenses	Depreciation	Interest payable	Total
	£000	£000	£000	£000	£000
Academic departments	30,425	9,647	642	–	40,714
Academic services	3,560	2,572	590	–	6,722
Research grants and contracts	1,200	720	38	–	1,958
Residences, catering and conferences	665	1,223	272	408	2,568
Premises	2,434	3,354	1,994	397	8,179
Administration	7,984	4,631	45	–	12,660
Other expenses	5,145	3,796	107	2	9,050
<b>Total per Income and Expenditure Account</b>	<b>51,413</b>	<b>25,943</b>	<b>3,688</b>	<b>807</b>	<b>81,851</b>

Of the total depreciation charge of £3,688,000, £174,000 relates to assets acquired under finance leases.

The depreciation charge has been funded by:

	£000
Deferred capital grants released (note 20)	919
Revaluation reserve released (note 22)	674
General income	2,095
	<b>3,688</b>

**(10) SURPLUS ATTRIBUTABLE TO PARENT UNDERTAKING**

The surplus dealt with in the accounts of the parent undertaking was £3,100,000 (2004 - £2,848,000).

**(11) INTANGIBLE FIXED ASSETS - GOODWILL****Consolidated and University****£000****Cost**

At 31 July 2005 and 31 July 2004	<b>270</b>
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**Amortisation**

At 1 August 2004 and 31 July 2005	<b>270</b>
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**Net Book Value**

At 31 July 2005 and 31 July 2004	<b>—</b>
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**(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
<b>Cost/Valuation</b>					
At 1 August 2004	84,314	113	110	17,534	102,071
Additions in year	1,255	967	9	1,344	3,575
Transfers in year	113	(113)	–	–	–
Disposals in year	(50)	–	(12)	–	(62)
Written off in year	–	–	–	(1,942)	(1,942)
<b>At 31 July 2005</b>	<b>85,632</b>	<b>967</b>	<b>107</b>	<b>16,936</b>	<b>103,642</b>
<b>Depreciation</b>					
At 1 August 2004	12,798	–	67	15,618	28,483
Charge for year	2,189	–	22	1,477	3,688
Disposals in year	(12)	–	(12)	–	(24)
Written off in year	–	–	–	(1,942)	(1,942)
<b>At 31 July 2005</b>	<b>14,975</b>	<b>–</b>	<b>77</b>	<b>15,153</b>	<b>30,205</b>
<b>Net Book Value</b>					
<b>At 31 July 2005</b>	<b>70,657</b>	<b>967</b>	<b>30</b>	<b>1,783</b>	<b>73,437</b>
At 31 July 2004	71,516	113	43	1,916	73,588

**(12) 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
<b>Cost/Valuation</b>					
At 1 August 2004	84,677	113	110	14,545	99,445
Additions in year	1,255	967	9	1,344	3,575
Disposals in year	(50)	–	(12)	–	(62)
Transfers in year	113	(113)	–	–	–
Transfer from subsidiary undertaking	–	–	–	1,599	1,599
Written off in year	–	–	–	(1,942)	(1,942)
<b>At 31 July 2005</b>	<b>85,995</b>	<b>967</b>	<b>107</b>	<b>15,546</b>	<b>102,615</b>
<b>Depreciation</b>					
At 1 August 2004	12,798	–	67	12,748	25,613
Charge for year	2,189	–	22	1,477	3,688
Disposals in year	(12)	–	(12)	–	(24)
Written off in year	–	–	–	(1,942)	(1,942)
Transfer from subsidiary undertaking	–	–	–	1,599	1,599
<b>At 31 July 2005</b>	<b>14,975</b>	<b>–</b>	<b>77</b>	<b>13,882</b>	<b>28,934</b>
<b>Net Book Value</b>					
<b>At 31 July 2005</b>	<b>71,020</b>	<b>967</b>	<b>30</b>	<b>1,664</b>	<b>73,681</b>
At 31 July 2004	71,879	113	43	1,797	73,832

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.

Assets transferred from subsidiary undertaking relate to assets held under a finance lease which at the end of the lease term reverted back to the holding company.

**(12) TANGIBLE FIXED ASSETS continued**

At 31 July 2005 the net book value of freehold land and buildings, for the group and the University, includes £1,990,000 (31 July 2004: £2,164,000) 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
<b>Consolidated</b>					
1997 Professional Valuation	48,167	—	—	—	48,167
1997 University Valuation	645	—	—	—	645
1998 University Valuation	1,999	—	—	—	1,999
Cost	34,821	967	107	16,936	52,831
<b>At 31 July 2005</b>	<b>85,632</b>	<b>967</b>	<b>107</b>	<b>16,936</b>	<b>103,642</b>
<b>University</b>					
1997 Professional Valuation	48,167	—	—	—	48,167
1997 University Valuation	645	—	—	—	645
1998 University Valuation	1,999	—	—	—	1,999
Cost	35,184	967	107	15,546	51,804
<b>At 31 July 2005</b>	<b>85,995</b>	<b>967</b>	<b>107</b>	<b>15,546</b>	<b>102,615</b>

**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:

	<b>Consolidated</b>		<b>University</b>	
	<b>2005</b>	2004	<b>2005</b>	2004
	<b>£000</b>	£000	<b>£000</b>	£000
Cost	60,290	58,922	60,594	59,226
Accumulated depreciation and impairment	(13,437)	(11,922)	(13,437)	(11,922)
<b>Net book value</b>	<b>46,853</b>	47,000	<b>47,157</b>	47,304

**(13) INVESTMENTS**

	Other Investments		
<b>Consolidated</b>	<b>£000</b>		
Cost			
At 31 July 2005 and 31 July 2004	<b>30</b>		
	—		
	Other Investments	Subsidiary Undertakings	Total
<b>University</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cost			
At 31 July 2005 and 31 July 2004	<b>30</b>	<b>850</b>	<b>880</b>
	—	—	—

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

<b>Subsidiary Undertaking</b>	<b>Nature of Business</b>	<b>Shareholding</b>
University of Teesside Enterprises Limited	Commercial activities, enterprise, trading and liaison with industry and commerce.	Limited by guarantee
EPICC Limited	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	Dormant.	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 2004	249
Additions	34
Disposals	(52)
Appreciation on disposals/revaluation	13
	<hr/>
At 31 July 2005	<b>244</b>
	<hr/>

	Valuation at 31 July 2005	Valuation at 31 July 2004
	£000	£000
Fixed interest stocks	35	59
Equities	104	67
Tax and other debtors	2	1
Bank balances	103	122
	<hr/>	<hr/>
Total endowment asset investments	<b>244</b>	249
	<hr/>	<hr/>
Fixed interest stocks and equities at cost	<b>134</b>	134

**(15) DEBTORS**

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Debtors	4,022	3,534	2,866	2,393
Prepayments and accrued income	6,867	6,434	6,111	6,208
Amounts due from subsidiary undertakings	—	—	6,361	7,427
Other debtors	242	655	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	<b>11,131</b>	10,623	<b>15,338</b>	16,028
	<hr/>	<hr/>	<hr/>	<hr/>

Included within amounts due from subsidiary undertakings is £1,770,000 (2004: £2,663,000) which is due after more than one year.

**(16) CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR**

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank overdraft	143	546	143	546
Mortgages and unsecured loans	642	225	642	225
Payments received on account	5,016	4,754	4,541	3,590
Creditors	2,736	2,191	2,733	2,183
Social security and other taxation payable	1,471	1,698	1,455	1,678
Accruals and deferred income	5,121	4,372	5,118	4,279
Amounts due to subsidiary undertakings	—	—	3,218	2,417
	<hr/>	<hr/>	<hr/>	<hr/>
	15,129	13,786	17,850	14,918
	<hr/>	<hr/>	<hr/>	<hr/>

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

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Loans secured on residential and other property repayable by 2022	10,592	3,717	10,592	3,717
Obligations under finance leases (note 18)	4,000	4,000	4,000	4,000
Amounts due to subsidiary undertakings	—	—	1,577	2,663
	<hr/>	<hr/>	<hr/>	<hr/>
	14,592	7,717	16,169	10,380
	<hr/>	<hr/>	<hr/>	<hr/>

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

	<b>Consolidated and University</b>	<b>Consolidated and University</b>
	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
Bank loans and overdrafts are repayable as follows:		
In one year or less	785	771
Between one and two years	642	225
Between two and five years	1,926	675
In five years or more	8,024	2,817
	<hr/>	<hr/>
	<b>11,377</b>	<b>4,488</b>
	<hr/>	<hr/>

Bank loans include mortgages at 0.3% and 0.6% above LIBOR, repayable by instalments and secured on freehold properties of the University.

**b Finance leases**

	<b>Consolidated and University</b>	<b>Consolidated and University</b>
	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
The net finance lease obligations to which the University is committed are:		
In five years or more	4,000	4,000
	<hr/>	<hr/>

The finance leases relate to academic and student accommodation.

**(19) PROVISIONS FOR LIABILITIES AND CHARGES**

	<b>Consolidated and University</b>
	<b>£000</b>
At 1 August 2004	4,999
Utilised in year	(310)
Transfer from Income and Expenditure Account	523
	<hr/>
At 31 July 2005	<b>5,212</b>
	<hr/>

The provision is in respect of pension enhancements payable to staff who have taken early retirement. The provision was recalculated at 31 July 2005 using the latest available actuarial tables.

**(20) DEFERRED CAPITAL GRANTS**

	Funding Council	Other Grants and Benefactions	Total
Consolidated and University	£000	£000	£000
At 1 August 2004			
Buildings	5,358	6,283	11,641
Equipment	514	62	576
	—	—	—
<b>Total</b>	<b>5,872</b>	<b>6,345</b>	<b>12,217</b>
	—	—	—
Cash Received and Receivable			
Buildings	638	80	718
Equipment	718	167	885
	—	—	—
<b>Total</b>	<b>1,356</b>	<b>247</b>	<b>1,603</b>
	—	—	—
Released to Income and Expenditure Account			
Buildings (notes 1 and 4)	174	184	358
Equipment (notes 1 and 4)	464	97	561
	—	—	—
<b>Total</b>	<b>638</b>	<b>281</b>	<b>919</b>
	—	—	—
At 31 July 2005			
Buildings	5,822	6,179	12,001
Equipment	768	132	900
	—	—	—
<b>Total</b>	<b>6,590</b>	<b>6,311</b>	<b>12,901</b>
	—	—	—

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

	£000
At 1 August 2004	249
Additions	3
Appreciation of endowment asset investments	13
Income for year	13
Expenditure for year	(34)
	<hr/>
At 31 July 2005	<b>244</b>
	<hr/>

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

	£000
At 1 August 2004	24,534
Revaluation Reserve realised on the disposal of assets	(51)
Transfer to Income and Expenditure Account	(674)
	<hr/>
At 31 July 2005	<b>23,809</b>
	<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 2004	33,653	32,823
Surplus after depreciation of assets at valuation and tax	2,996	3,100
Transfer from Revaluation Reserve	674	674
Revaluation Reserve realised on the disposal of assets	51	51
	<hr/>	<hr/>
At 31 July 2005	<b>37,374</b>	<b>36,648</b>
	<hr/>	<hr/>

**(24) LEASE OBLIGATIONS**

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Operating lease commitments in respect of land and buildings for the 2005/06 financial year, on leases expiring:				
Within one year	625	665	625	665
Between one and five years	—	—	—	—
In five years or more	—	—	—	—
	<b>625</b>	<b>665</b>	<b>625</b>	<b>665</b>

**(25) FUTURE CAPITAL COMMITMENTS**

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Commitments contracted at 31 July	<b>601</b>	1,186	<b>601</b>	1,186

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

	2005	2004
	£000	£000
Surplus before tax	<b>2,975</b>	3,576
Amortisation	—	216
Depreciation	<b>3,688</b>	3,750
Deferred capital grants released to income	<b>(919)</b>	(816)
Investment income	<b>(772)</b>	(455)
Interest payable	<b>807</b>	669
(Profit)/loss on sale of fixed assets	<b>(169)</b>	8
Decrease in stocks	<b>3</b>	3
Increase in debtors	<b>(569)</b>	(3,608)
Increase in creditors	<b>1,300</b>	1,977
Increase/(decrease) in provisions	<b>213</b>	(275)
<b>Net cash inflow from operating activities</b>	<b>6,557</b>	5,045

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

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>Returns on investments and servicing of finance</b>		
Income from endowments	<b>13</b>	12
Interest received	<b>896</b>	384
Interest element of finance lease rental payments	<b>(517)</b>	(500)
Other interest paid	<b>(264)</b>	(182)
	<hr/>	<hr/>
<b>Net cash inflow/(outflow) for returns on investments and servicing of finance</b>	<b>128</b>	(286)
	<hr/>	<hr/>
<b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	<b>(3,572)</b>	(4,656)
Purchase of endowment asset investments	<b>(33)</b>	(4)
Sale of tangible fixed assets	<b>207</b>	–
Sale of endowment asset investments	<b>33</b>	8
Endowments received	<b>3</b>	26
Deferred capital grants received	<b>1,526</b>	1,268
	<hr/>	<hr/>
<b>Net cash outflow for capital expenditure and financial investment</b>	<b>(1,836)</b>	(3,358)
	<hr/>	<hr/>
<b>Management of liquid resources*</b>		
Net movement in short-term deposits	<b>(10,334)</b>	(693)
	<hr/>	<hr/>
<b>Financing</b>		
Repayment of bank loan	<b>(208)</b>	(225)
Loans acquired	<b>7,500</b>	–
	<hr/>	<hr/>
<b>Net cash inflow/(outflow) of financing</b>	<b>7,292</b>	(225)
	<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 2004 £000	Cash Flows £000	Other non-cash Changes £000	At 31 July 2005 £000
Cash in hand and at bank	3,587	1,423	–	5,010
Endowment assets	122	(19)	–	103
Overdraft	(546)	403	–	(143)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,163	1,807	–	4,970
Short-term deposits	9,040	10,334	–	19,374
Debt due after 1 year	(3,717)	(7,500)	625	(10,592)
Debt due within 1 year	(225)	208	(625)	(642)
Finance leases	(4,000)	–	–	(4,000)
	<hr/>	<hr/>	<hr/>	<hr/>
	4,261	4,849	–	9,110
	<hr/>	<hr/>	<hr/>	<hr/>

**(29) MAJOR NON-CASH TRANSACTIONS**

An additional provision of £523,000 (2004 – £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 2004 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	7.00%
Investment returns per annum - bonds	4.90%
Pay increases per annum	4.90%
Price inflation/pension increases per annum	2.90%
Market value of scheme assets at date of last valuation	£1,231 million
Proportion of member's accrued benefits covered by the actuarial value of the assets	81%

As a result of this valuation the University's contributions were determined as continuing at 14.9%. The total pension cost for the University under this scheme was £2,390,000 (2004: £2,185,000). This includes £206,000 (2004: £190,000) 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 2005 by a qualified independent actuary.

<b>The major assumptions used by the actuary were:</b>	<b>31 July 2005</b>	<b>31 July 2004</b>
Inflation assumption	2.9%	2.9%
Rate of increase in salaries	4.9%	4.9%
Rate of increase in pensions in payment	2.9%	2.9%
Discount rate	5.1%	5.8%
	<b>31 July 2003</b>	
Inflation assumption	2.6%	
Rate of increase in salaries	4.6%	
Rate of increase in pensions in payment	2.6%	
Discount rate	5.5%	

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

	<b>2005</b>		<b>2004</b>	
	<b>Long term rate of return</b>	<b>Value at 31 July</b>	<b>Long term rate of return</b>	<b>Value at 31 July</b>
	<b>%</b>	<b>£000</b>	<b>%</b>	<b>£000</b>
Equities	7.5	1,125,494	7.9	877,000
Gilts	4.5	161,445	5.4	—
Other bonds	5.3	34,545	5.4	176,000
Property	7.0	76,784	6.7	69,000
Cash	4.3	128,852	4.5	112,000
		<b>1,527,120</b>		<b>1,234,000</b>
		<hr/>		<hr/>
	<b>2003</b>			
Equities	8.0	759,400		
Gilts	5.0	—		
Other bonds	5.0	177,000		
Property	6.0	55,500		
Cash	3.5	94,400		
		<b>1,086,300</b>		
		<hr/>		

University's share of the total assets in the scheme	3.07%	2.98%
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	<b>31 July 2005</b>	<b>31 July 2004</b>
	<b>£000</b>	<b>£000</b>
University's estimated asset share	<b>46,822</b>	36,772
	<hr/>	<hr/>
Present value of scheme liabilities	<b>69,092</b>	52,255
Present value of unfunded liabilities	<b>1,144</b>	1,041
	<hr/>	<hr/>
	<b>70,236</b>	53,296
	<hr/>	<hr/>
<b>Deficit in the scheme - net pension liability</b>	<b>(23,414)</b>	(16,524)
	<hr/>	<hr/>

**(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**

	<b>31 July 2005</b>	31 July 2004
	<b>£000</b>	£000
Net assets excluding pension liability	<b>74,328</b>	70,653
Pension liability	<b>(23,414)</b>	(16,524)
<b>Net assets including pension liability</b>	<b>50,914</b>	54,129
<b>Reserves note</b>		
Income and expenditure reserve excluding FRS17 pension liability	<b>37,374</b>	33,653
Pension reserve	<b>(23,414)</b>	(16,524)
<b>Income and expenditure reserve</b>	<b>13,960</b>	17,129

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**

	<b>Year ended</b>	Year ended
	<b>31 July 2005</b>	31 July 2004
	<b>£000</b>	£000
Service cost	<b>2,898</b>	2,418
Past service cost	–	38
Curtailments and settlements	<b>15</b>	–
<b>Total operating charge</b>	<b>2,913</b>	2,456

**Analysis of the projected amount charged to other finance costs**

	<b>Year ended</b>	Year ended
	<b>31 July 2005</b>	31 July 2004
	<b>£000</b>	£000
Expected return on employer's share of pension scheme assets	<b>2,719</b>	2,292
Interest on employer's share of pension scheme liabilities	<b>(3,142)</b>	(2,656)
<b>Net cost</b>	<b>(423)</b>	(364)

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

	Year ended 31 July 2005 £000	Year ended 31 July 2004 £000
Actual return less expected return on employer's share of pension scheme assets	4,961	545
Experience gains and losses arising on the employer's share of the scheme liabilities	524	(1,108)
Changes in assumptions underlying the present value of the scheme's liabilities	(11,452)	(64)
Actuarial loss recognised in the STRGL	<b>(5,967)</b>	<b>(627)</b>

**Movement in deficit during the year**

Employer's share of the deficit in the scheme at the beginning of the year	(16,524)	(15,333)
Movement in year:		
Current service cost	(2,898)	(2,418)
Contributions	2,413	2,191
Contributions in respect of unfunded benefits	—	65
Past service cost	—	(38)
Curtailments and settlements	(15)	—
Other finance income	(423)	(364)
Actuarial loss	(5,967)	(627)
Employer's share of the deficit in the scheme at the end of the year	<b>(23,414)</b>	<b>(16,524)</b>

**History of experience gains and losses**

	2005	2004	2003	2002
Difference between the expected and actual return on scheme assets:				
Amount (£000)	<b>4,961</b>	545	(440)	(7,038)
Percentage of scheme assets	<b>10.6%</b>	1.5%	(1.4%)	(25.3%)
Experience gains and losses on scheme liabilities:				
Amount (£000)	<b>524</b>	(1,108)	(530)	2,729
Percentage of the present value of the scheme liabilities	<b>0.7%</b>	(2.1%)	(1.1%)	7.6%
Total amount recognised in the statement of total recognised gains and losses:				
Amount (£000)	<b>(5,967)</b>	(627)	(7,355)	(2,461)
Percentage of the present value of the scheme liabilities	<b>(8.5%)</b>	(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 £2,737,000 (2004: £2,562,000). This includes £228,000 (2004: £216,000) 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 2.5% (2004 - 3.0%) in excess of price inflation.

An amount of £5,212,000 (2004: £4,999,000) 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**

	<b>2005</b>	2004
	<b>£000</b>	£000
Funding Council grants	<b>885</b>	864
Interest earned	<b>17</b>	15
	<hr/>	<hr/>
	<b>902</b>	879
Disbursed to students	<b>(820)</b>	(660)
	<hr/>	<hr/>
<b>Balance unspent at 31 July 2005</b>	<b>82</b>	219
	<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) 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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