

SHEFFIELD HALLAM UNIVERSITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2004

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SHEFFIELD HALLAM UNIVERSITY

BOARD OF GOVERNORS REPORT FOR THE YEAR ENDED 31 JULY 2004

The Governors of Sheffield Hallam University submit their annual report and audited accounts for the year ended 31 July 2004.

Constitution and Powers

Sheffield Hallam University is a higher education corporation (HEC) as defined under the Education Reform Act 1988.

The powers of the HEC are defined in Section 124 of the 1988 Act as amended by the Further and Higher Education (FHE) Act 1992, and subject thereto any relevant regulations, orders or directions made by the Secretary of State or Privy Council. These powers include the power to provide higher and further education and to carry out research and to publish the results of such research.

The Corporation has exempt charitable status by virtue of the 1988 Act.

Scope of the Financial Statements

The financial statements presented by the Governors comprise the consolidated results of the University and its subsidiary companies. The subsidiary companies undertake activities which, for legal or commercial reasons, are more appropriately channelled through a limited company. These activities include:-

Collegiate Properties (2) Limited : contracting and property management
Collegiate Properties (3) Limited : equipment leasing
Collegiate Library Services Limited : provision of library services to the University
O & N Contracting Limited : property leasing
Sheffield Hallam University Enterprises Limited : non-property related trading activities
Virtual Learning Systems Limited : web-based learning services (e-learning)

Collegiate Charitable Trust is also consolidated. The Trust's main activity is the leasing of property.

The subsidiary companies gift taxable profits to the University. The Trust returns taxable profits to the University by way of a grant.

Results for the Year

The University's Consolidated Income, Expenditure and Results for the year to 31 July 2004 are summarised as follows:

	2004 £000	2003 £000
Income	139,734	131,523
Expenditure	133,434	128,056
	<hr/>	<hr/>
Surplus on Continuing Operations	6,300	3,467
Surplus on Sale of Fixed Assets	2,081	332
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Surplus for the Year	8,381	3,799
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The University has had another financially successful year, recording an operating surplus for the seventh consecutive year. The operating surplus for the year of £6.3m represents just over 4.5% of operating income (2002/03 : 2.6%), whilst the overall surplus for the year, including that arising from the sale of fixed assets, of £8.4m was 6.0% of total income (2002/03 : 2.9%). The surplus before disposal of fixed assets for 2003/04 increased on prior year by £2.8m, this was achieved through income growth and controlled costs.

Income growth of £8.2m was driven by increased student numbers which in turn increased HEFCE funding, TTA grants, and Tuition fees. In addition Capital grants increased by 0.5M on prior year. Staff costs were maintained at 62% of income while other operating costs remained flat and reduced as a % of income to 34% from 36%. The control of other operating costs against increased income generated a surplus of £2.8m.

The financial statements show increases in income from all sources, with total income increasing to £139.7m. The total funding received from HEFCE, which accounts for 42.7% of all income received by SHU, increased by 4.5% year on year. TTA funding grew by a healthy 14.8% (£0.8m), driven by increased student numbers. Tuition fees from full-time home and EU students rose by just 2.7%. The University did benefit significantly from increased tuition fee income from overseas students and from training contracts for the National Health Service. These increased by 24.7% and 15.3% respectively, giving a combined increase on 2002/03 of £2.7m.

Fixed assets have increased by £5.8m (2002/03 £2.6m), the major contributing factor being the construction of a new health building for the Faculty of Health and Wellbeing.

Total net assets have risen from £79.4m to £91.7m and within that figure, the Income and Expenditure Reserve improved by £9.5m to £44.6m.

The University's ability to generate cash from its operating activities remains a critical element of its financial strategy and 2003/04 saw another strong performance in this area. £18.5m was generated (2002/03 : £14.9m) and this enabled the University to both invest £16.9m in additions to its fixed asset base and also increase current cash balances by £9.4m to £30.7m at 31 July 2004. The significant increase in cash balances has allowed the University to increase its Current Ratio (the ratio of current assets to current liabilities) to 1.19 from 1.08 and also to increase net current assets at 31 July by £4.2m to £6.4m. Ongoing investment plans for 2004/05 and beyond will result in reduced cash balances although the cash generated from operating activities should ensure any reduction leaves the cash balance in a healthy position. Longer term borrowings have fallen to £23.1m as the University continues to repay the loans acquired in the mid 1990's to fund its estates development programme at that time.

The consolidated statements incorporate the results of the University's wholly owned subsidiary companies and of the Collegiate Charitable Trust. As already indicated these organisations undertake a variety of activities, including trading, premises refurbishment and equipment leasing. On turnover of £14.84m (2002/03 : £15.49m) they generated a pre-tax profit of £2.42m (2002/03 : £2.61m).

Health and Safety

The University is committed to providing a safe working environment for its staff, students and visitors and for that purpose employs professionally qualified staff to identify and report on problems, to organise training and to provide advice and information. To enable the Board of Governors to discharge its responsibility for health and safety, it receives regular reports together with an annual report on performance.

Sustainability

The breadth and extent of the University's activities are such that they have a considerable environmental impact. The aim of the University is to minimise adverse environmental effects through initiatives which are compatible with effective and efficient operation. All staff and students are encouraged to recognise their potential contribution to the achievement of the University's environmental aims. Leadership is provided by the Facilities Directorate.

The key achievements and developments during the year were:

- Increased recycling
- 10% reduction in water consumption
- 3.5% decrease in energy consumption
- 1% (or 138 tonnes) reduction in CO₂ emissions
- Improved staff awareness of sustainability issues
- Embedding the integrated transport policy
- Staff involvement in local and national charity events
- Greater activity to reduce the negative effects of student behaviour on the local community.

Diversity

The University's vision is to 'set the standard for a modern, progressive university'. Such a vision requires a commitment to treating people equitably irrespective of origins or background. It also encompasses the belief that diversity and inclusivity, of and for both students and staff, will help to encourage the dynamism, enterprise and excellence necessary to 'play a leading national role in the 21st Century'.

In April 2002 the Board of Governors approved a Racial Equality Policy (in compliance with the Race Relations Amendment Act 2000) which underlined the University's commitment to eliminate unlawful racial discrimination, promote equality of opportunity and promote good relations between people of different racial groups. In February 2003 the Higher Education Funding Council for England (HEFCE) included the University's policy in its list of those considered to be 'exemplars' in the sector. Progress towards achieving the goals in the implementation plan was reported to the Board of Governors in the first annual report in December 2003. In 2004 the Board of Governors and the Academic Board approved policies and guidance notes on religious and sexual orientation equality to take account of the University's obligations under the Employment Equality Regulations which came into force in December 2003. Another focus of attention has been the continuation of work to ensure compliance with the Special Educational Needs Disability Act 2001 (SENDA).

Employee Involvement

The University is committed to developing its staff so that they have the skills, expertise and enterprise necessary to meet the University's challenging goals. Investors in People recognition has been achieved in a number of business units across the University and other quality benchmarks are used to monitor the excellence of the organisation and the products and services that we deliver.

The University continues to build on its partnership approach to progressing change and problem resolution, developing better employment relationships at all levels between managers, staff and their representatives.

The second annual partnership seminar for senior managers and trade union representatives was held in October 2003 to jointly explore the implications, opportunities and challenges presented by the forthcoming Information and Consultation Regulations. An Information and Consultation Steering Group has been formed, and an employee survey undertaken on information and consultation needs, to support the development of an Information and Consultation framework for the University. DTI Partnership at Work funding has been secured to support this initiative. The framework will build on achievements to date, and other work in progress, for embedding partnership working across the University. This includes the implementation of Local Joint Consultative Committees in individual business units.

Considerable investment has been made in the communications and consultation with staff on the implementation of the Corporate Plan with a clear participative approach having been adopted. The Corporate Plan Implementation Project teams include members of staff and trade union representatives.

Progress for Growth bulletins and an intranet question box were successfully introduced to communicate and encourage engagement with the Corporate Plan. Support for senior staff responsible for local communications has been increased through the introduction of an initial network of 'Comms Champs'. An online 'Who's Who?' is under development to ease the practicalities of changing structures and responsibilities. A strategy is currently under development to meet the briefing needs of the new University structure and to maximise the benefits of electronic all-staff communications.

In the meantime a new quarterly staff magazine has been launched, involving input from individuals from across the University and all Faculties and Departments.

The University undertakes a staff experience survey on a biennial basis and the results are communicated to appropriate senior managers for them to determine action plans to address areas of concern for staff. The Local Joint Consultative Committee is kept abreast of the process and outcomes.

Payment of Creditors

The University is fully committed to the prompt payment of its suppliers invoices and supports the Confederation of British Industry's (CBI) Prompt Payment Code. The University aims to pay invoices in accordance with agreed contractual conditions or, where no such specific conditions exist, within 30 days of receipt of goods or services or the presentation of a valid invoice, whichever is the later. To support this commitment, the University will monitor its performance on creditor payment against both sector and industry norms and report regularly to Governors thereon.

Corporate Governance

The University is committed to exhibiting best practice in all aspects of corporate governance. It aims to conduct its business in accordance with the principles identified in the Committee on Standards in Public Life (Nolan) and the CUC Guide for Members of Governing Bodies of Universities and Colleges. The Board of Governors has adopted a Governance Code which sets out the responsibilities, rights and code of conduct of its members. In addition whilst the University, being a higher education corporation as defined under the Education Reform Act 1988 with charitable status, does not fall within the regulation of the London Stock Exchange, the Board of Governors intend to ensure that the University complies with the provisions of its Combined Code on Corporate Governance which can be applied to universities. As a result the University has developed a system of reviewing the entire system of internal control which concentrates on a risk based approach, with the aim of integrating corporate governance into the overall management process.

The Board of Governors has responsibility for maintaining a sound system of internal control that supports the achievement of its objectives, whilst safeguarding the public and other funds and assets for which it is responsible. Such a system is designed to manage rather than eliminate the risk of failure to achieve objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The Board of Governors has responsibility for reviewing the system of internal control (including the effectiveness of the University's risk management processes). The system of internal control is based on an on-going process designed to identify the principal risks; to evaluate the nature and extent of those risks; and to manage them effectively and economically. The Board of Governors is of the view that this has been fully in place for the year ended 31st July 2004 and up to the date of approval of the annual report and financial statements, that it is regularly reviewed by the Board of Governors and that it

accords with the internal control guidance for directors on the Combined Code as deemed appropriate for higher education.

The University engages in risk management because it is good business practice and brings identified benefits rather than merely to comply with external direction. The following have been established:

- A risk management policy, approved by the Board of Governors in October 2002;
- The register of corporate risks, which is reviewed on an annual basis;
- A risk management group, the University Leadership Group, which is responsible for the continuing development of the risk management process and for monitoring and reviewing the risk register;
- The University has embedded its approach to risk management within its business planning process with the aim of engaging all levels of staff with management responsibility;
- Risk management is embedded in the University's approach to the management of change and, specifically, in the governance of corporate projects;
- The Audit Committee receives reports from the head of internal audit, which include internal audit's independent opinion on the adequacy and effectiveness of the University's system of internal control; together with any recommendations for improvement. The internal auditors have undertaken an independent review of the University's risk management process (May 2004);
- The Audit Committee receives regular reports on risk management;
- The Board of Governors receives periodic reports from the Chair of the Audit Committee concerning internal control and requires regular reports from managers on steps they are taking to manage risks in their areas of responsibility including progress reports on key projects.

The University's review of effectiveness of internal control is informed by the work of internal audit, which operates to standards defined in the HEFCE Audit Code of Practice. The review of the effectiveness of internal control is also informed by the work of the executive managers with the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The University's business planning process requires faculties and departments to identify the local implications of the corporate risk register and put in place arrangements for risk management. The senior management considers the local risk assessments and action plans as part of its overview of the planning process and the risk management group uses the information when reviewing the corporate risk register.

In the light of information derived from the business planning process, the corporate risk register was reviewed and updated by the University Leadership Group and presented to the Audit Committee in June 2004. In addition, in September 2004, a workshop for the Audit Committee reviewed the development of the University's risk management process, the risk register and the Committee's role in risk management.

At their meetings in November and December 2004, the Audit Committee and Board of Governors respectively carried out an annual assessment of the effectiveness of risk management for the year ended 31st July 2004 and taking into account events since 31st July 2004.

The Board of Governors is committed to continuous monitoring of its performance. Discussion of the Annual Report of the Board of Governors and its Committees gives the Board an opportunity to reflect on its practice and recommend improvements.

In accordance with good practice guidance for higher education institutions, during 2003/04 the Board of Governors undertook a periodic review of its effectiveness.

New governors participate in an induction programme and each year all governors are given the opportunity to attend training and development activities on various aspects of their responsibilities. In 2003/04 training sessions were provided on the role and responsibilities of governors and the Board in the context of finance, HE funding and decision making in the University and on the academic quality and standards framework and University academic policies.

Internal Financial Controls

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, 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 academic performance 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
- A formalised treasury management policy
- Comprehensive Financial Regulations detailing financial controls and procedures
- A professional Internal Audit team whose annual programme is approved by the Audit Committee.

Any system of internal financial control can 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 comprises lay and academic persons appointed under the Instrument of Government of the University, the majority of whom are non-executive. The roles of Chairman and Deputy Chairman of the Board of Governors are separate from the role of the Vice-Chancellor. The matters specifically referred to the Board of Governors for decision are set out in the Articles of Government of the University and the Board meets five times a year for this purpose. In addition, discussions are held on issues of strategic development to the University.

By custom and under the Financial Memorandum with the Higher Education Funding Council for England, the Board of Governors holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day-to-day operations of its business and its subsidiary companies.

The policy implications of strategic developments in higher education as they affect the experience of University students are kept under review through a University Students Union Liaison Group and the Board of Governors has nominated one of its members as a student mentor, to maintain a line of communication on its behalf. The President of the Students Union is a member of the Board ex officio, and reports to each meeting on student matters.

The Board of Governors operates with a committee structure comprising a Finance and Employment Committee, a Remunerations Committee, a Nominations Committee and an

Audit Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors, one of whom is designated to chair meetings. Governors are also represented on the Academic Board's Honorary Awards Committee.

The Vice-Chancellor and Clerk to the Board of Governors have held regular meetings with the Board Officers (Chair of the Board, Deputy Chair of the Board, Chair of the Finance and Employment Committee, Deputy Chair of the Finance and Employment Committee and Chair of the Audit Committee) in order to coordinate effectively the business of the Board.

The Finance and Employment Committee approves: the policy framework and associated regulations for the investment of surplus funds and borrowing requirements; tenders, quotations and contracts for items of expenditure above the limits stated in the Financial Regulations; the write-off of irrecoverable debts; insurance arrangements and major agreements entered into with Trades Unions. It recommends to the Board of Governors: financial and employment policies within the strategic framework approved by the Board; the Financial Regulations; the sale or acquisition of property or land within the strategic framework approved by the Board above the limits stated in the Financial Regulations; annual revenue and capital budgets and longer term projections; estates strategy and building programmes and the annual appointment of auditors. Finally, it advises management on finance and personnel operating procedures and on staffing strategies and human resources procedures, and receives reports on the activities of University companies.

The Remunerations Committee determines salaries and conditions of service of Board appointments which are the Vice-Chancellor, the Director of Finance and University Secretary and Clerk to the Board. More generally, it advises the Vice-Chancellor on salaries and conditions of service of senior managers.

The Nominations Committee considers nominations for filling vacancies in the Board of Governors membership under the Instrument of Government. Such nominations are subject to the formal approval of the Board of Governors.

The Audit Committee meets normally three times annually, with the External and Internal Auditors in attendance. The Committee considers 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. It oversees the University's risk management process on behalf of the Board of Governors. It also receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitors adherence with the regulatory requirements. It reviews the University's annual financial statements together with the accounting policies. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee has the formal opportunity to meet with the Auditors in private without University management to enable them to raise any issues and concerns at one meeting each year and may raise urgent matters at any time via the Committee Chairman.

Responsibilities of the University's Board of Governors

In accordance with the Education Reform Act 1988 and the Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the University and its subsidiary companies (Group) 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 Group and to enable it to ensure that the financial statements are prepared in accordance with the University's Articles of Government, the Statement of Recommended Practice on Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England 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 Group 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
- It is appropriate for the financial statements to be prepared on the going concern basis.

The Board of Governors has taken reasonable steps to:

- Ensure that funds 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 Sheffield Hallam University have been applied only for the purposes for which they were received and in accordance with the Financial Memoranda with the Funding Councils and any other conditions which the Funding Councils 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 Group and prevent and detect fraud and other irregularities
- Secure the economical, efficient and effective management of the Group's resources and expenditure.

Going Concern

After making enquiries the Board of Governors has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the Financial Statements.

N Jeffrey
Chair of the Board of Governors

D M Green
Vice-Chancellor

Independent Auditors' Report to the Board of Governors of Sheffield Hallam University

We have audited the financial statements on pages 12 to 41, which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out on pages 18 to 20.

This report is made solely to the Board of Governors, in accordance with paragraph 13(2) of the University's articles of Government and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to it in an 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 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

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 for Further and Higher Education. 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, in all material respects, income has been applied in accordance with the University's Instrument and Articles of Government 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 Board of Governors' Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Board of Governors report (including the corporate governance statement) and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of Audit 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 in the preparation of the financial statements and of whether the accounting policies are appropriate to the University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations 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 the Group as at 31 July 2004 and of the surplus of income over expenditure and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting for Further and Higher Education;
- 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 during the year ended 31 July 2004 have been applied for the purposes for which they were received; and
- c) in all material respects, income during the year ended 31 July 2004 has been applied in accordance with the University's Instrument and Articles of Government, Financial Regulations and, where appropriate, with the Financial Memoranda (00/25 and 03/54) with the Higher Education Funding Council for England and the Terms and Conditions of Funding with the Teacher Training Agency.

KPMG LLP
Chartered Accountants and Registered Auditors
1 The Embankment
Neville Street
Leeds
LS1 4DW

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 July 2004

	Note	2004 £000	2003 £000
INCOME			
Funding Council grants	2	68,364	64,483
Academic fees and support grants	3	40,389	36,939
Research grants and contracts	4	10,831	10,290
Other operating income	5	18,958	18,948
Endowment income and interest receivable	6	1,192	863
		<hr/>	<hr/>
Total income		139,734	131,523
		<hr/>	<hr/>
EXPENDITURE			
Staff costs	7	86,118	81,244
Depreciation	8	9,941	9,306
Other operating expenses	9	35,811	35,889
Interest payable	10	1,564	1,617
		<hr/>	<hr/>
Total expenditure		133,434	128,056
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation and before tax		6,300	3,467
Surplus on disposal of fixed assets	11	2,081	332
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation and disposal of assets but before tax		8,381	3,799
Taxation		-	-
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation, disposal of assets and tax		8,381	3,799
		<hr/>	<hr/>

All results are from continuing operations.

SHEFFIELD HALLAM UNIVERSITY

CONSOLIDATED STATEMENT OF HISTORICAL COST SURPLUSES AND DEFICITS

for the year ended 31 July 2004

	Note	2004 £000	2003 £000
Surplus after depreciation of assets at valuation, disposal of assets and tax		8,381	3,799
Realisation of property revaluation gains of previous years.	21	683	257
Difference between an historical cost depreciation charge/fixed asset writedown and the actual depreciation charge for the year calculated on the revalued amount	21	419	437
		<hr/>	<hr/>
Historical cost surplus after tax		9,483	4,493
		<hr/>	<hr/>

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
for the year ended 31 July 2004

	Note	2004 £000	2003 £000
Surplus after depreciation of assets at valuation, disposal of assets and tax		8,381	3,799
New endowments	15	34	31
Endowment income retained for the year	15	(24)	-
Unrealised profit for the year	22	-	860
		<hr/>	<hr/>
Total recognised gains relating to the year		8,391	4,690
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		63,617	58,927
Total recognised gains for the year		8,391	4,690
		<hr/>	<hr/>
Closing reserves and endowments		72,008	63,617
		<hr/>	<hr/>

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED BALANCE SHEET

as at 31 July 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
FIXED ASSETS					
Tangible assets	12	108,963		103,384	
Investments	14	<u>42</u>	109,005	<u>42</u>	103,426
ENDOWMENT ASSET INVESTMENTS					
	15		564		554
CURRENT ASSETS					
Stocks and stores in hand		164		163	
Debtors	16	9,949		7,575	
Short term deposits		30,353		22,102	
Cash at bank and in hand		<u>396</u>		<u>546</u>	
		40,862		30,386	
CREDITORS - amounts falling due within one year					
	17	<u>34,425</u>		<u>28,133</u>	
NET CURRENT ASSETS			6,437		2,253
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>116,006</u>		<u>106,233</u>
CREDITORS - amounts falling due after more than one year					
	18	23,145		25,825	
PROVISIONS FOR LIABILITIES AND CHARGES					
	19	<u>1,113</u>	<u>24,258</u>	<u>1,007</u>	<u>26,832</u>
TOTAL NET ASSETS			<u>91,748</u>		<u>79,401</u>
Represented by					
DEFERRED CAPITAL GRANTS					
	20		19,740		15,784
ENDOWMENTS					
Specific	15		564		554
RESERVES					
Revaluation reserve	21	26,070		27,172	
Capital reserve	22	803		831	
Income and expenditure	23	<u>44,571</u>	<u>71,444</u>	<u>35,060</u>	<u>63,063</u>
TOTAL FUNDS			<u>91,748</u>		<u>79,401</u>

The financial statements on pages 12 to 41 were approved on behalf of the Board of Governors on 14 December 2004.

SHEFFIELD HALLAM UNIVERSITY

UNIVERSITY BALANCE SHEET

as at 31 July 2004

	Note	2004 £000	2004 £000	2003 £000	2003 £000
FIXED ASSETS					
Tangible assets	13	102,592		97,444	
Investments	14	<u>17,537</u>	120,129	<u>17,537</u>	114,981
ENDOWMENT ASSET INVESTMENTS	15		564		554
CURRENT ASSETS					
Stocks and stores in hand		164		163	
Debtors	16	17,037		17,057	
Short term deposits		29,708		21,129	
Cash at bank and in hand		<u>303</u>		<u>400</u>	
		<u>47,212</u>		<u>38,749</u>	
CREDITORS - amounts falling due within one year	17	<u>36,892</u>		<u>30,833</u>	
NET CURRENT ASSETS			10,320		7,916
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>131,013</u>		<u>123,451</u>
CREDITORS - amounts falling due after more than one year	18	42,607		47,046	
PROVISIONS FOR LIABILITIES AND CHARGES	19	<u>1,113</u>	<u>43,720</u>	<u>1,007</u>	<u>48,053</u>
TOTAL NET ASSETS			<u>87,293</u>		<u>75,398</u>
Represented by					
DEFERRED CAPITAL GRANTS	20		19,740		15,784
ENDOWMENTS					
Specific	15		564		554
RESERVES					
Revaluation reserve	21	26,070		27,172	
Capital reserve	22	803		831	
Income and expenditure	23	<u>40,116</u>	<u>66,989</u>	<u>31,057</u>	<u>59,060</u>
TOTAL FUNDS			<u>87,293</u>		<u>75,398</u>

The financial statements on pages 12 to 41 were approved on behalf of the Board of Governors on 14 December 2004.

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2004

	Note	2004 £000	2003 £000
Cash inflow from operating activities	27	18,534	14,852
Return on investments and servicing of finance	29	(396)	(754)
Capital expenditure and financial investment	30	(7,114)	(9,254)
Cash inflow before use of liquid resources and financing		11,024	4,844
Management of liquid resources		(8,261)	(4,779)
Financing		(1,589)	(495)
Increase / (decrease) in cash		1,174	(430)
 Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash in the period		1,174	(430)
Increase in liquid resources		8,261	4,779
Repayment of debt		1,589	495
Change in net debt		11,024	4,844
Net debt at 1 August		(5,603)	(10,447)
Net cash / (debt) at 31 July	31	5,421	(5,603)

SHEFFIELD HALLAM UNIVERSITY

NOTES TO THE ACCOUNTS

1. Statement of Principal Accounting Policies

Accounting Convention

The financial statements of the University have been prepared under the historical cost convention, as modified by the revaluation of certain land and buildings, and in accordance with both the Statement of Recommended Practice : Accounting for Further and Higher Education (the SORP) issued in September 2003 and applicable Accounting Standards.

Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University and its wholly owned subsidiary undertakings (Sheffield Hallam University Enterprises Ltd, Collegiate Properties (2) Ltd, Collegiate Properties (3) Ltd, O&N Contracting Ltd, Virtual Learning Systems Ltd and Collegiate Library Services Ltd) together with those of the Collegiate Charitable Trust.

The University and its subsidiaries prepare accounts to the 31 July.

The consolidated financial statements do not include those of the University's Union of Students as it is a separate legal entity over which the University does not exercise control or significant influence over policy decisions.

Recognition of Income

Income from tuition fees is recognised in the period for which it is received and includes all fees chargeable to students or their sponsors. The costs of any fees waived by the University are included as expenditure.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Income receivable from the Funding Council is recognised in line with the latest estimates of grant receivable for an academic year. The final grant allocation is determined in the subsequent February, following submission of the year end returns.

Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

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 on the inception of the lease. The excess of lease payments over recorded lease obligations are treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

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

Land and Buildings

Land and buildings were revalued at 31 March 1992 on the basis of current market value for continuation of existing use where appropriate. Where buildings are in specialist use and there is no general market value then the valuation was carried out on the basis of depreciated replacement cost, in accordance with the Royal Institution of Chartered Surveyors Guidance Notes concerning asset valuation. Land and buildings acquired since 31 March 1992 are included at cost.

The University adopted the transitional provisions of Financial Reporting Standard (FRS) 15 and determined not to subsequently revalue its Fixed Assets from the amounts currently included within the Financial Statements.

Equipment

Designated equipment financed from Funding Council grants and other equipment costing £5,000 or more is capitalised and shown at cost.

Depreciation

Buildings

Depreciation on new and existing buildings is provided on a straight line basis over their expected useful lives, generally 50 years. It is provided on structural additions over the remaining useful life, and on major refurbishments over 10 years.

Leased Buildings

The fitting out costs of leased buildings are depreciated over the lesser of the assets' lives or the expected occupancy period.

Other Tangible Fixed Assets

Furniture and fittings for new and refurbished buildings are depreciated on a straight line basis over 5 years. Other capital equipment is similarly depreciated, generally over 4 years.

Grants

Where assets are acquired with the aid of specific grants the relevant grants are treated as deferred capital grants and released to the Income and Expenditure Account over the same period as the relevant assets are depreciated.

Stocks

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

Cash Flows and Liquid Resources

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

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as Endowment Asset Investments.

Provisions

Provisions are recognised when the University has a present legal or constructive obligation where, as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Maintenance of Premises

The University has a rolling long-term maintenance plan which is reviewed periodically and forms the basis of the ongoing maintenance of the estate. The cost of long-term and routine corrective maintenance is charged to the Income and Expenditure Account as incurred.

Taxation Status

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

The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Pension Costs

The University/Group operates pension schemes providing benefits based on final pensionable pay. The assets of the schemes are held separately from those of the Group, being invested with insurance companies. Contributions to the schemes are charged to the Income and Expenditure Account so as to spread the cost of pensions over employees' working lives with the University/Group.

The University's approach to implementing the requirements of FRS17 Retirement Benefits is outlined in Note 24.

2. Funding Council Grants

	2004	2003
	£000	£000
Higher Education Funding Council for England		
Recurrent grant	55,222	53,650
Specific grants	4,392	3,416
Teacher Training Agency		
Recurrent grant	6,381	5,490
Specific grants	168	215
Deferred capital grants released in year (Note 20)		
Buildings	1,249	949
Equipment	952	763
	<hr/>	<hr/>
	68,364	64,483
	<hr/>	<hr/>

3. <u>Academic Fees and Support Grants</u>	2004	2003
	£000	£000
Full-time UG home and EU students	16,404	15,973
Full-time PG home and EU students	1,719	1,894
Part-time home and EU students	4,667	4,461
Overseas students	8,657	6,943
Fees from NHS contracts	7,258	6,293
Other fees and support grants	1,684	1,375
	<hr/>	<hr/>
	40,389	36,939
	<hr/>	<hr/>
4. <u>Research Grants and Contracts</u>	2004	2003
	£000	£000
OST Research Councils	511	580
UK-based charities	710	552
UK central government bodies/local authorities, health & hospital authorities	7,707	7,560
UK industry, commerce and public corporations	643	492
EU government bodies	659	710
EU other	63	46
Other overseas	104	56
Other sources	434	294
	<hr/>	<hr/>
	10,831	10,290
	<hr/>	<hr/>
5. <u>Other Operating Income</u>	2004	2003
	£000	£000
Residences, catering and conferences	5,487	5,099
Other services rendered	6,974	7,476
Other income	6,497	6,373
	<hr/>	<hr/>
	18,958	18,948
	<hr/>	<hr/>
6. <u>Endowment Income and Interest Receivable</u>	2004	2003
	£000	£000
Transferred from specific endowments (Note 15)	40	15
Income from short term investments	1,152	848
	<hr/>	<hr/>
	1,192	863
	<hr/>	<hr/>

7. **Staff**

Staff Costs	2004 £000	2003 £000
Wages and salaries	72,104	69,210
Social Security costs	5,612	4,965
Other pension costs	7,577	6,065
Restructuring costs	825	1,004
	<hr/>	<hr/>
	86,118	81,244
	<hr/>	<hr/>

Emoluments of the Vice-Chancellor	2004 £000	2003 £000
Salary	149	134
Other benefits	1	1
	<hr/>	<hr/>
	150	135
Pension contributions	20	13
	<hr/>	<hr/>
	170	148
	<hr/>	<hr/>

The pension contributions represent the University's employer's contributions to the Teacher's Pensions Scheme and are paid at the same rate as for other employees.

Remuneration of other higher paid staff, excluding employer's pension contributions, fall within the following bands:

	2004	2003
£70,000 - £79,999	5	1
£80,000 - £89,999	1	2
£90,000 - £99,999	2	1
£100,000 - £109,999	3	3
£110,000 - £119,999	-	-
£120,000 - £129,999	-	-
£130,000 - £139,999	1	-

The average number of persons employed during the year was made up as follows:

	2004	2003
School/Research Institute based	1,645	1,650
Academic support departments	290	301
Administration	577	550
Other	251	250
	<hr/>	<hr/>
	2,763	2,751
	<hr/>	<hr/>

The staff numbers are full time equivalents. Academic support departments mainly comprise staff of Communication and IT Services and the Learning Centre.

8. **Depreciation**

	2004	2003
	£000	£000
The depreciation charge has been funded by:		
Deferred capital grants released (Note 20)	2,335	1,910
General income	7,187	6,959
Revaluation reserve released (Note 21)	419	437
	<hr/>	<hr/>
	9,941	9,306
	<hr/>	<hr/>

9. **Other Operating Expenses**

	2004	2003
	£000	£000
Residences, catering and conferences	1,780	1,640
Consumables and laboratory expenditure	3,932	3,812
Books and periodicals	1,655	1,312
Heat, light, water and power	1,210	1,115
Repairs and general maintenance	1,513	1,629
Grants to Sheffield Hallam University Union of Students	767	743
Rents	627	601
External Auditors' remuneration – Audit: University	29	25
– Audit: Subsidiaries	11	11
– Other services	16	116
Internal Audit services	81	59
Operating lease rentals – plant and machinery	367	351
Staff development, travel and other expenses	2,062	2,013
Restructuring costs	88	105
Student-related expenses	2,875	2,101
Printing and stationery	919	1,048
Postage and telephones	1,078	1,089
Advertising and marketing	1,514	1,385
Franchising/Payments to schools	1,875	2,246
Professional services	8,756	9,109
Other expenses	4,656	5,379
	<hr/>	<hr/>
	35,811	35,889
	<hr/>	<hr/>

10. **Interest Payable**

	2004	2003
	£000	£000
Loans not wholly repayable within five years	1,560	1,613
Finance leases	4	4
	<hr/>	<hr/>
	1,564	1,617
	<hr/>	<hr/>

11. **Surplus on Disposal of Fixed Assets**

During the year the University completed the disposal of a number of properties which had become surplus to the requirements of the estate.

The assets were recorded in the accounts at a value of £1.361m and realised on disposal a net surplus of £2.081m.

12. **Tangible Fixed Assets - Consolidated**

	<u>Land and Buildings</u>			<u>Assets in Course of Construction</u>	<u>Equipment</u>	<u>Total</u>
	<u>Freehold</u>	<u>Long Leasehold</u>	<u>Short Leasehold</u>			
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 August 2003						
Valuation	33,632	-	-	-	-	33,632
Cost	92,284	45	2,701	2,596	55,131	152,757
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Additions at cost	2,962	368	-	9,121	4,430	16,881
Transfers at cost	11,012	-	-	(11,012)	-	-
Disposals at valuation	(2,330)	-	-	-	-	(2,330)
At 31 July 2004						
Valuation	31,302	-	-	-	-	31,302
Cost	106,258	413	2,701	705	59,561	169,638
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At 1 August 2003	33,696	-	2,701	-	46,608	83,005
Charge for year	4,906	18	-	-	5,017	9,941
Eliminated on disposals	(969)	-	-	-	-	(969)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2004	37,633	18	2,701	-	51,625	91,977
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value						
At 31 July 2004	99,927	395	-	705	7,936	108,963
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2003	92,220	45	-	2,596	8,523	103,384
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The land and buildings were revalued as at 31 March 1992 by Fuller Peiser, an independent firm of chartered surveyors, in accordance with the fixed assets accounting policy outlined in Note 1.

13. **Tangible Fixed Assets - University**

	<u>Land and Buildings</u>			<u>Assets in Course of Construction</u>	<u>Equipment</u>	<u>Total</u>
	<u>Freehold</u>	<u>Long Leasehold</u>	<u>Short Leasehold</u>			
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 August 2003						
Valuation	33,632	-	-	-	-	33,632
Cost	75,286	15,810	2,701	2,596	54,739	151,132
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Additions at cost	2,962	368	-	9,121	4,429	16,880
Transfers at cost	11,012	-	-	(11,012)	-	-
Disposals at valuation	(2,330)	-	-	-	-	(2,330)
At 31 July 2004						
Valuation	31,302	-	-	-	-	31,302
Cost	89,260	16,178	2,701	705	59,168	168,012
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At 1 August 2003	30,469	7,882	2,701	-	46,268	87,320
Charge for year	4,565	807	-	-	4,999	10,371
Eliminated on disposals	(969)	-	-	-	-	(969)
At 31 July 2004	34,065	8,689	2,701	-	51,267	96,722
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value						
At 31 July 2004	86,497	7,489	-	705	7,901	102,592
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2003	78,449	7,928	-	2,596	8,471	97,444
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The land and buildings were revalued as at 31 March 1992 by Fuller Peiser, an independent firm of chartered surveyors, in accordance with the fixed assets accounting policy outlined in Note 1.

14. **Investments**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Fixed Asset Investments				
Investment in subsidiary companies at cost	-	-	9,750	9,750
Loan to Collegiate Properties (2) Ltd	-	-	6,015	6,015
Loan to Collegiate Library Services Ltd	-	-	1,730	1,730
Other investments	42	42	42	42
	42	42	17,537	17,537

Subsidiary Undertakings	Principal Activity	Country of Registration	Percentage of Ordinary Shares Held
3D Imaging Technology Limited	Dormant	England and Wales	100
Collegiate Library Services Limited	Provision of library services to the University	England and Wales	100
Collegiate Properties Limited	Dormant	England and Wales	100
Collegiate Properties (2) Limited	Contracting and property leasing	England and Wales	100
Collegiate Properties (3) Limited	Equipment leasing	England and Wales	100
Hallam Biotechnology Limited	Dormant	England and Wales	100
Hallam Immunotech Limited	Dormant	England and Wales	100
Hallam Proteonics Limited	Dormant	England and Wales	100
O&N Contracting Limited	Property leasing	England and Wales	100
Sheffield Hallam Innovation and Enterprise Limited	Dormant	England and Wales	100
Sheffield Hallam Property Company Limited	Dormant	England and Wales	100
Sheffield Hallam University Enterprises Limited	Non-property related trading activities	England and Wales	100
Virtual Learning Systems Limited	Web-based learning services (e-learning)	England and Wales	100

The University also consolidates the Collegiate Charitable Trust. The Trust's financial statements are prepared to 31 July 2004.

15. **Endowment Assets**

	Consolidated and University	
	2004	2003
	£000	£000
At 1 August	554	523
Income for year	16	15
New endowments	34	31
Transferred to Income and Expenditure account (Note 6)	(40)	(15)
	<hr/>	<hr/>
At 31 July	564	554
	<hr/>	<hr/>
Representing		
Prize funds	172	172
Other funds	392	382
	<hr/>	<hr/>
	564	554
	<hr/>	<hr/>

The University's fixed asset endowments are held as short term cash deposits.

16. **Debtors**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	5,060	4,891	4,447	4,160
Amounts owed by group undertakings	-	-	4,538	5,898
Prepayments and accrued income	4,889	2,684	8,052	6,999
	<hr/>	<hr/>	<hr/>	<hr/>
	9,949	7,575	17,037	17,057
	<hr/>	<hr/>	<hr/>	<hr/>

In the financial year 1996/97 the University entered into a contract with Collegiate Properties (2) Limited (CP2L) to carry out refurbishment work on certain of the University's buildings. The University prepaid the whole of the works amounting to £15 million, which was immediately lent back by CP2L with interest at 1% per annum above LIBOR, payable quarterly. The prepayment is reduced as refurbishment work is carried out by CP2L, consequently the loan from CP2L to the University is also reduced, by the value of the work undertaken.

17. **Creditors: Amounts Falling Due Within One Year**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Bank overdrafts	61	1,385	61	1,385
Mortgages and unsecured loans	2,680	1,585	2,680	1,585
Obligations under finance leases	5	9	1,764	2,019
Payments received on account	8,836	6,526	9,010	6,501
Trade creditors	6,464	3,365	5,103	3,292
Social security and other taxation payable	3,448	3,051	3,442	2,977
Accruals and deferred income	12,931	12,212	14,129	11,530
Amounts owed to group undertakings	-	-	703	1,544
	34,425	28,133	36,892	30,833

18. **Creditors : Amounts Falling Due After More Than One Year**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Loans repayable secured on residential and other property				
Between one and five years:				
Secured loans	10,720	10,720	10,720	10,720
Over five years:				
Secured loans	12,425	15,105	12,425	15,105
Obligations under finance leases				
Between one and five years:				
Equipment	-	-	3,669	4,964
Over five years:				
Equipment	-	-	28	492
Leasehold obligation to group undertakings	-	-	15,765	15,765
	23,145	25,825	42,607	47,046

Amounts repayable after more than one year in respect of bank loans outstanding at 31 July 2004 maybe analysed as follows:

Consolidated and University					
Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2004 £000	Balance outstanding 2003 £000
Co-operative Bank	1997	2012	fixed	3,430	3,920
Barclays Bank	1999	2014	fixed	12,257	13,619
Barclays Bank	1999	2014	variable	7,458	8,286
				23,145	25,825

19. **Provisions for Liabilities and Charges**

Consolidated and University				
	Property related £000	Pensions £000	Restructuring £000	Total £000
At 1 August 2003	200	522	285	1,007
Utilised in year	-	(32)	(145)	(177)
Income and Expenditure account	-	39	244	283
	200	529	384	1,113
At 31 July 2004				

The property related provision is in respect of a constructive obligation to contribute towards developments that will enhance the environs within which the University's main campus is located.

The pensions provision is in respect of pension enhancements payable on behalf of staff who have taken early retirement.

The restructuring provision is in respect of redundancy payments and other one-off costs arising from the reorganisation of various elements of the University's academic portfolio.

20. **Deferred Capital Grants**

	Consolidated and University			
	Funding Councils £000	Other Grants £000	2004 Total £000	2003 Total £000
At 1 August				
Buildings	13,148	1,213	14,361	14,610
Equipment	1,423	-	1,423	1,662
Total	14,571	1,213	15,784	16,272
Cash Received				
Buildings	4,839	306	5,145	848
Equipment	1,146	-	1,146	574
Total	5,985	306	6,291	1,422
Released to Income and Expenditure account				
Buildings	1,249	134	1,383	1,097
Equipment	952	-	952	813
Total	2,201	134	2,335	1,910
At 31 July				
Buildings	16,738	1,385	18,123	14,361
Equipment	1,617	-	1,617	1,423
Total	18,355	1,385	19,740	15,784

21. **Revaluation Reserve**

	Consolidated and University	
	2004 £000	2003 £000
Balance brought forward at 1 August	27,172	27,866
Release in respect of assets sold in year	(683)	(257)
Release to Income and Expenditure reserve equivalent to depreciation on revaluation	(419)	(437)
Balance at 31 July	26,070	27,172

22. **Capital Reserve**

	Consolidated and University 2004 £000	2003 £000
Balance brought forward at 1 August	831	-
Unrealised profit in the year	-	860
Release to Income and Expenditure reserve	(28)	(29)
	<hr/>	<hr/>
Balance at 31 July	803	831
	<hr/>	<hr/>

23. **Income and Expenditure Reserve**

	Consolidated £000	University £000
Surplus after depreciation of assets at valuation, disposal of assets and tax	8,381	7,929
Release from revaluation reserve	1,102	1,102
Release from capital reserve	28	28
	<hr/>	<hr/>
	9,511	9,059
Balance at 1 August 2003	35,060	31,057
	<hr/>	<hr/>
Balance at 31 July 2004	44,571	40,116
	<hr/>	<hr/>

24. **Pension Costs**

Teachers' Pension Scheme (TPS)

The University participates in the Teachers' Pensions Scheme, a defined benefit scheme which is unfunded. Contributions from both members and employers are credited to the Exchequer, which is then responsible for meeting the cost of all benefits. The TPS is a multi-employer pension scheme and it is not possible to identify each institution's share of the underlying (notional) assets and liabilities of the scheme. Contributions to the scheme are therefore accounted for as if it were a defined contribution scheme, with the cost recognised within the surplus/deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

Actuarial valuations are carried out on a notional set of investments every five years using the prospective benefits method. The assumptions and other data which have the most significant effect on the determination of the contribution level are as follows:

Latest actuarial valuation	31.3.01
Investment returns per annum	7.0%
Salary scale increases per annum	5.0%
Pension increases per annum	3.5%
Value of notional assets at date of last valuation	£142,880m
Next actuarial valuation due	31.3.06

As part of the actuarial valuation, the Government Actuary undertakes a review of the level of employers' contributions. For the period from 1 April 2003 to 31 March 2004 the employer contribution rate was 8.35%. Based on the results of the last valuation, and the desire of the Government to make the scheme operate more like a privately funded scheme and to also reduce the cost to the Treasury, the Actuary determined that the contribution rate should increase significantly to cover the cost of pensions increases. From 1 April 2004 there was an increase of 5.15%, bringing the rate to 13.5%.

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. The assets of the schemes are held in a separate trustee-administered fund. It is not possible to identify each institution's 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, with the cost recognised within the surplus/deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The scheme is valued every three years by actuaries using the projected unit method. The assumptions and other data which have the most significant effect on the determination of the contribution level are as follows:

Latest actuarial valuations	31.3.02
Investment returns per annum	6.0%
Salary scale increases per annum	3.7%
Pension increases per annum	2.7%
Market value of assets at date of last valuation	£19,938m
Proportion of the members' accrued benefits covered by the actuarial value of the assets.	101%
Next actuarial valuation due	31.3.05

Local Government Pension Scheme (LGPS)

The University participates in the Local Government Pension Scheme (LGPS), a defined benefit scheme which is externally funded and contracted out of the State Earnings-Related Pension Scheme. There are some 100 separate funds within the scheme, administered locally by administering authorities. The University participates in the South Yorkshire Pension Fund (SYPF).

The SYPF is valued every three years by a qualified independent actuary using the projected unit method, the rates of contribution payable being determined by the actuary with the approval of the administering authority. The last full actuarial valuation was carried out at 31 March 2004.

The SYPF is structured in such a way that the actuary has been able to identify the University's share of the underlying assets and liabilities on a consistent and reasonable basis. Whilst the University continues to account for pension costs under SSAP 24 'Accounting for pension costs', the University is required to provide the transitional disclosures set out in FRS17 for a defined benefit scheme.

The actuary has assessed the financial position of the University's share of the scheme as at 31 July 2004. The major assumptions used by the actuary were:

	2004	2003	2002
Rate of increase in salaries	4.3%	4.0%	4.0%
Rate of increase in pensions in payment	2.8%	2.5%	2.5%
Discount rate	5.7%	5.5%	6.0%
Inflation assumption	2.8%	2.5%	2.5%

These assumptions are the best estimates chosen from a range of possible actuarial assumptions which, due to the timescale covered, may not necessarily be borne out in practice.

Scheme Assets

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

	Long term rate of return expected at 31 July 2004	Value at 31 July 2004 £000	Long term rate of return expected at 31 July 2003	Value at 31 July 2003 £000
Equities	7.5%	46,126	8.0%	40,392
Government Bonds	5.0%	13,095	4.7%	10,470
Other Bonds	5.7%	4,414	6.0%	4,265
Property	6.5%	7,798	7.0%	6,980
Other	4.5%	2,133	4.0%	2,520
		73,566		64,627
		73,566		64,627

The following amounts at 31 July 2004 were measured in accordance with the requirements of FRS 17:

	31 July 2004 £000	31 July 2003 £000	31 July 2002 £000
Total fair value of assets	73,566	64,627	59,172
Present value of scheme liabilities	(95,785)	(85,425)	(70,182)
(Deficit) in the scheme – Net pension (liability)	(22,219)	(20,798)	(11,010)
	(22,219)	(20,798)	(11,010)

If the above amounts had been recognised in the financial statements, the Institution's net assets and general reserve at 31 July 2004 would be as follows:

	31 July 2004 £000	31 July 2003 £000
Net assets excluding pension liability	91,748	79,401
Pension (liability)	(22,219)	(20,798)
	<hr/>	<hr/>
Net assets including pension liability	69,529	58,603
	<hr/>	<hr/>
General reserve excluding pension liability	44,571	35,060
Pension reserve	(22,219)	(20,798)
	<hr/>	<hr/>
General reserve including pension liability	22,352	14,262
	<hr/>	<hr/>

Additionally, if the pension costs had been recognised in accordance with FRS 17, the following components of the pensions charge would have been recognised in the Income and Expenditure account and Statement of Total Recognised Gains and Losses for the year ended 31 July 2004;

	Year ended 31 July 2004	
	£000	£000
Analysis of amounts charged to Income and Expenditure account:		
Current service cost		(3,678)
Past service cost		(167)
Financing:		
- expected return on pension scheme assets	4,397	
- interest on expected scheme liabilities	(4,797)	
	<hr/>	
- net cost		(400)

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:	Year ended 31 July	
	2004 £000	2003 £000
Actual return less expected return on pension scheme assets	1,758	(1,759)
Experience gains and losses arising on scheme liabilities	-	-
Changes in assumptions underlying the present value of scheme liabilities	(1,816)	(7,788)
	<hr/>	<hr/>
Total actuarial loss recognised	(58)	(9,547)
	<hr/>	<hr/>

The movement in the Institution's share of the scheme's deficit during the year is made up as follows:

	2004 £000	2003 £000
(Deficit) on scheme at 1 August	(20,798)	(11,010)
Movement in year:		
- current service cost	(3,768)	(3,056)
- contributions	2,972	2,743
- past service costs	(167)	(48)
- other finance (costs) / income	(400)	120
- actuarial loss	(58)	(9,547)
	<hr/>	<hr/>
(Deficit) on scheme at 31 July	(22,219)	(20,798)
	<hr/>	<hr/>

The experience gains and losses for the year ended 31 July 2004 were as follows:

Difference between the expected and actual return on scheme assets:

Amount (£000)	1,758	(1,759)
Percentage of scheme assets	2.4%	(2.7%)

Experience gains and losses on scheme liabilities:

Amount (£000)	-	-
Percentage of the present value of scheme liabilities	-	-

Total amount recognised in the Statement of Total Recognised Gains and Losses:

Amount (£000)	58	(9,547)
Percentage of the present value of the scheme liabilities	0.1%	(11.2%)

Pensions for part-time staff

Following judgements of the European Court of Justice (ECJ) that excluding part-time staff from pension schemes amounted to discrimination, and the resulting changes in UK legislation, a liability in respect of the cost of providing backdated pension benefits may arise in the University. This would apply to benefits for those part-time staff who have or may elect for retrospective membership of the two principal pension schemes.

A significant number of claims nationally have been lodged (in excess of 60,000), 20 of which are against the University. Following an initial series of test cases involving the UK courts and the ECJ, the House of Lords published its findings in February 2001. Their decision however left a number of other issues still unresolved and a number of further test cases were selected and heard in June and July 2002.

The outcome of these test cases was published in August 2002, followed by a number of further hearings throughout Autumn 2002. By Spring 2003, it was announced that the Government had agreed to settle the majority of the qualifying public sector claims. As the pension schemes are both contributory, the settlement involves making an offer to each individual claimant allowing them to be admitted to the scheme for the period when (s)he was unlawfully excluded, subject to the payment by both the employer and employee of sums to reflect the contributions they would have made had the employee not been excluded. Any applicable employer contributions are expected to be met by the Government and the pension funds therefore there is unlikely to be any cost to the University.

The current situation on the claims against the University is that 9 claims are stayed pending the outcome of further test cases, 6 claims have been struck out and 5 claims are awaiting further information from the applicants.

25. **Lease Obligations**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
The net finance lease obligations to which the University is committed are:				
Within one year	5	9	1,764	2,010
Between one and five years	-	-	3,669	4,964
Over five years	-	-	15,793	16,257
	5	9	21,226	23,231
Operating lease commitments for the financial year, on leases expiring:				
Within one year	181	34	181	34
Between one and five years	170	341	170	341
Over five years	771	771	3,082	3,082
	1,122	1,146	3,433	3,457

26. **Capital Commitments**

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
Commitments contracted at 31 July	8,275	8,870	3,473	666
Authorised but not contracted at 31 July	6,870	14,288	6,870	14,288
	15,145	23,158	10,343	14,954

27. **Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities**

	2004 £000	2003 £000
Operating surplus	8,381	3,799
Depreciation	9,941	9,306
Deferred capital grants released to income	(2,335)	(1,910)
Investment income	(1,192)	(863)
Interest payable	1,564	1,617
(Increase) in stocks	(1)	(11)
(Increase) in debtors	(2,374)	(211)
Increase in creditors	6,525	3,165
Increase in provisions	106	292
Profit on sale of fixed assets	(2,081)	(332)
	<hr/>	<hr/>
Net Cash Inflow from Operating Activities	18,534	14,852
	<hr/>	<hr/>

28. **Analysis of Changes in Consolidated Financing During the Year**

	Finance Leases £000	Mortgages & Loans £000	Total £000
Balances at 31 July 2002	14	27,900	27,914
	<hr/>	<hr/>	<hr/>
New leases/loans	-	-	-
Capital repayments	(5)	(490)	(495)
	<hr/>	<hr/>	<hr/>
Net amount (repaid) in year	(5)	(490)	(495)
	<hr/>	<hr/>	<hr/>
Balances at 31 July 2003	9	27,410	27,419
	<hr/>	<hr/>	<hr/>
New leases/loans	-	-	-
Capital repayments	(4)	(1,585)	(1,589)
	<hr/>	<hr/>	<hr/>
Net amount (repaid) in year	(4)	(1,585)	(1,589)
	<hr/>	<hr/>	<hr/>
Balances at 31 July 2004	5	25,825	25,830
	<hr/>	<hr/>	<hr/>

29. **Returns on Investments and Servicing of Finance**

	2004 £000	2003 £000
Income from endowments	16	15
Income from short term investments	1,152	848
Interest paid	(1,564)	(1,617)
	<hr/>	<hr/>
	(396)	(754)
	<hr/>	<hr/>

30. **Capital Expenditure and Financial Investment**

	2004 £000	2003 £000
Tangible assets acquired	(16,881)	(11,176)
Receipts from sale of fixed assets	3,442	469
	<hr/>	<hr/>
	(13,439)	(10,707)
	<hr/>	<hr/>
Deferred capital grants received	6,291	1,422
Endowments received	34	31
	<hr/>	<hr/>
	6,325	1,453
	<hr/>	<hr/>
	(7,114)	(9,254)
	<hr/>	<hr/>

31. **Analysis of Changes in Net Debt**

	2003 Consolidated £000	Cash Flows £000	2004 Consolidated £000
Cash at bank and in hand	(840)	1,174	334
Endowment bank balance	554	10	564
	<hr/>	<hr/>	<hr/>
	(286)	1,184	898
Debt due over more than 1 year:			
Secured loans	(25,825)	2,680	(23,145)
Debt due under 1 year:			
Secured loans	(1,585)	(1,095)	(2,680)
Obligations under finance leases	(9)	4	(5)
Short term deposits	22,102	8,251	30,353
	<hr/>	<hr/>	<hr/>
	(5,603)	11,024	5,421
	<hr/>	<hr/>	<hr/>

32. **Access Funds**

	2004 £000	2003 £000
Funding Council Access grants	1,700	1,575
Interest earned	24	21
	<hr/>	<hr/>
	1,724	1,596
Disbursed to students	(1,488)	(1,596)
Grants carried forward and disbursed in following year	(236)	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

Funding Council Access grants are available solely for students, with the University acting only as a paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account. The University receives income towards the cost of administering these funds and both this income and the related expenditure are included within the Income and Expenditure Account.

33. **Teacher Training Agency Support Funding**

	2004	2003
	£000	£000
Initial Teacher Training Bursaries		
Funds received	3,366	2,955
Disbursed to students	(2,908)	(2,487)
	<hr/>	<hr/>
Unspent funds to be recovered	458	468
	<hr/>	<hr/>
Secondary Shortage Subjects Scheme		
Funds received	693	379
Disbursed to students	(321)	(375)
	<hr/>	<hr/>
Funds carried forward to be disbursed in following year	372	4
	<hr/>	<hr/>

These funding streams are available solely for students, with the University acting only as a paying agent. The income and related disbursements are therefore excluded from the Income and Expenditure Account. The University receives income towards the cost of administering these funds and both this income and the related expenditure are included within the Income and Expenditure Account.

34. **Related Party Transactions**

The Governors have considered the requirements of FRS8: Related Party Disclosures which apply to these financial statements. The standard requires disclosure of, inter alia, transactions with related parties of the University.

In the normal course of business the University transacts with private and public sector organisations a certain number of which Governors and senior managers of the University are directors, officers or partners. All such transactions are undertaken on an arm's length basis in accordance with normal agreements with customers and suppliers. The Governors do not consider that disclosure of transactions with such organisations is required under the standard because none of the Governors or senior managers, or members of their close family, have a controlling interest in the organisations in which they are employees or partners.

Nonetheless the Governors consider it appropriate to disclose transactions where, for example, a parent company directorship or partner status in a professional firm is involved. The following transactions relate to professional partnerships or controlling interests for the period covered by the Financial Statements:

Professor Diana Green, Vice Chancellor and member of the Board of Governors, was a director of Yorkshire Universities, which received payments of £20,032 (2002/03 Nil) from the University.

Mr Michael Renger, a Governor, was a partner with Nabarro Nathanson, Solicitors, which provided professional services for the University. All such services were completely unconnected with Mr Renger and were undertaken by a different part of the firm. Payments during the year in respect of such services amounted to £15,157 (2002/03 Nil).

The University maintains a register of Governors' and senior managers' interests which is available for inspection at the University Secretariat.

BOARD OF GOVERNORS

FOR THE YEAR ENDED 31 JULY 2004

Isadora Aiken OBE
Christopher Chapman
Dr Iain Colquhoun
Mohammed Dajani
Alex Dixon (student nominee July 2003 – June 2004)
Frank Eul
Chris Franc (student nominee July 2004 – June 2005)
Prof Diana Green (Vice-Chancellor)
Simon Holden
Michael Hubbard
Nicholas Jeffrey (Chair)
Desmond Kavanagh
John Lambert
Pam Liversidge OBE
Neil McKay CB
James Newman
Michael Renger
Sam Scharf (student nominee July 2003 – June 2004)
Vicky Seddon
Marion Simon MBE (Deputy Chair)
Hilary Spencer
Jo Swinhoe
David Warren (student nominee July 2004 – June 2005)

FINANCE AND EMPLOYMENT COMMITTEE

Pam Liversidge OBE (Chair)
Christopher Chapman
Mohammed Dajani
Frank Eul
Prof Diana Green (Vice-Chancellor)
Simon Holden
Nicholas Jeffrey
Desmond Kavanagh (Deputy Chair)
Michael Renger
Marion Simon MBE
Jo Swinhoe

AUDIT COMMITTEE

Christopher Chapman (Chair to 31 December 2003)
John Lambert
Neil McKay CB
James Newman
Hilary Spencer (Chair from 1 January 2004)
Martin Randle

REMUNERATIONS COMMITTEE

Prof Diana Green (Vice-Chancellor)
Nicholas Jeffrey (Chairman)
Pam Liversidge OBE
Michael Renger
Marion Simon MBE

NOMINATIONS COMMITTEE

Christopher Chapman
Michael Hubbard
Prof Diana Green (Vice-Chancellor)
Nicholas Jeffrey (Chairman)
Pam Liversidge OBE
Hilary Spencer
Prof Sue Yeandle
Tom Colston/Prof Colin Hawkes (Clerk to the Board of Governors)