

SHEFFIELD HALLAM UNIVERSITY

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2005

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SHEFFIELD HALLAM UNIVERSITY

BOARD OF GOVERNORS REPORT FOR THE YEAR ENDED 31 JULY 2005

The Governors of Sheffield Hallam University submit their annual report and audited accounts for the year ended 31 July 2005.

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 2005 are summarised as follows:

	2005 £000	2004 £000
Income	149,938	139,734
Expenditure	145,454	133,434
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Surplus on Continuing Operations	4,484	6,300
Surplus on Sale of Fixed Assets	-	2,081
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Surplus for the Year	4,484	8,381
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The University had another financially successful year, recording an operating surplus for the eighth consecutive year. The operating surplus for the year of £4.5m represents 3.0% of operating income (2003/04: 4.5%). There were no sales of fixed assets during the year.

The surplus before disposal of fixed assets for 2004/05 decreased on prior year by £1.8m, this was largely due to an increase in other operating expenses of £6.2m (17.4% increase on prior year).

Income increased by £10.2m which was due to a combination of increased fee income from part time home and EU students (£1.0m) and additional fees from NHS contracts (£1m), as well as growth in research grants and contracts (£1.3m) and an increase in the HEFCE core grant (after holdback) of £4.2m. Capital grants released in year remained flat at £2.2m.

Staff costs were 60.8% of income versus 61.6% in prior year, reflecting delays in recruitment and deferred recruitment in some subject areas due to under recruitment of students. Depreciation and interest payable remained flat at circa 7% and 1% of income respectively. Other operating expenses increased by £6.2m, from 25.6% of income to 28%. This was largely due to increases in four areas of spend, professional services expenses (£2.3m and additional 1.1% of income), other expenses (£0.8m and 0.45%), staff development and training (£0.6m and 0.36%) and Marketing and Publicity (£0.6m and 0.36%).

The increase in professional services related to a significant increase in managed contracts such as the 'Sport England Survey' in Health and Wellbeing. A substantial part of the expenditure goes to a subcontractor which in this case was MORI who were contracted to provide the survey. The increase in managed contracts was observed across all faculties with the exception of ACES which reported a small reduction. In addition there was an increased spend on prior year on the 'Rewarding and Developing Staff' HEFCE special initiative relating to leadership training (£0.44m).

Other expenses increased as a result of additional agency staff costs resulting from delayed recruitment in the Faculties and one off investment in projects such as module costing and automated purchase order processing. Staff development and training increased as a result of additional investment in faculty and department staff as well as development and training relating to the new payroll system implemented in year. Marketing and Publicity costs increased as a result of market research into the impact of investment in market analysis on International and CPD students.

The financial statements show increases in income from all sources, with total income increasing to £149.9m. The total funding received from HEFCE, which accounts for 41.5% of all income received by SHU, increased by 4.5% year on year. TTA funding grew by 7.1% (£0.5m) driven by increased student numbers. Tuition fees from home and EU students grew by 4.3%, although this growth resulted from Post Graduate and Part Time students with Full Time students reporting a small decline. The University benefited from increased tuition fee income of £1m from training contracts for the National Health Service an increase of 13.3% on prior year. International student income continued to be strong with more moderate growth of 4.7% (£0.4m).

Fixed assets have increased by £4.9m (2003/04 £5.6m), with major contributions from the completed refurbishment of the Students Union building, the completion of floors 9&10 in the Owen building, the new main entrance, and equipment for the new Health and Wellbeing building.

Total net assets have risen from £91.7m to £99.4m and within that figure, the Income and Expenditure Reserve improved by £4.9m to £49.5m.

The University's ability to generate cash from its operating activities remains a critical element of its financial strategy and 2004/05 saw another strong performance in this area. £15.6m was generated (2003/04 : £18.5m) and this enabled the University to both invest £15.7m in addition to its fixed asset base and also increase current cash balances by £2.8m to £33.5m at 31 July 2005. The increase in cash balances has enabled the University to maintain its current ratio (the ratio of current assets to current liabilities) at 1.18 also to increase net current assets at 31 July by £0.4m to £6.8m. Ongoing investment plans for 2005/06 and beyond will result in reduced cash balances and increased borrowing. This is currently being modelled within a new long term plan. Existing longer term borrowings have fallen to £20.5m 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 £14.86m (2003/04 : £14.84m) they generated a pre-tax profit of £1.65m (2003/04 : £2.42m).

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:

- Reduction in general waste by 9.06% (or 87.603 tonnes)
- Reduction in total water consumption by 1.5 million litres
- 3% reduction in consumption of heating fuels, largely due to an ongoing program to install efficient gas boilers in place of old oil burning equipment
- Development of a Corporate Social Responsibility (CSR) policy and monitoring system
- Activity to reduce the negative effects of student behaviour on the local community
- Raising staff and student awareness of sustainability issues.

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) and during 2004/05 work was started to ensure that the University will meet the new positive duty on public bodies to promote equality of opportunity for people with disabilities, which comes into operation in December 2006 as a result of the Disability Discrimination Act 2005.

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 fourth annual partnership seminar for senior managers and trade union representatives was held in October 2005 to jointly explore the implications, opportunities and challenges presented by implementing an Information and Consultation framework for the University in the wake of the recent Information and Consultation Regulations. The framework was approved on 29 July 2005 and 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.

The University undertakes a staff experience survey on a biennial basis subdivided into four sections, distributed electronically each semester over the two-year cycle and the results are communicated to appropriate senior managers for them to determine action plans to address areas of concern for staff. Action plans and subsequent action following the survey is logged and displayed on the staff website. The Joint Consultative Committees are kept abreast of the process and outcomes.

The University has prioritised effective communications and consultation with staff on the implementation of the Corporate Plan and on initiatives such as the pay modernisation agenda and University branding. A clear participative approach has been adopted with an emphasis on partnership working.

We have appointed a Head of Internal Communications who is now working with departments and faculties to review and strengthen communication and consultation networks from Corporate through local levels. A working group has been established to provide an ongoing overview of the development of internal communications to the University Executive, using data such as the staff survey, to adjust the strategy according to the changing needs of staff. Internal communications strategy will help ensure the University's core brand values and growth strategies are understood, accepted and owned by our staff.

NewView, the new quarterly staff magazine generates active input from individuals from across the University and has established an editorial board representing all faculties and departments.

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 the CUC's Governance Code of Practice and work is ongoing to ensure that governance practice is consistent with the principles of the Code. 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 2005 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;
- A register of corporate risks, which is reviewed on an annual basis;
- A Risk Management 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. In February 2005, the internal auditors carried out a post-audit review of the University's risk management processes to follow up on recommended management actions, all of which had been implemented satisfactorily;
- 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 and record risks (both threats and opportunities) associated with their annual operating plans, including the local implications of any key issues arising from their analysis of the external context, with reference to the University's PEST analysis. 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.

The corporate risk register currently consists of eleven key strategic risks identified by the University Leadership Group at its workshop in July 2005. Each key risk or uncertainty is further analysed and the root causes deemed to be of significant concern are identified.

A risk table for each area of uncertainty defines the major causes of concern, identifies any opportunities that might arise, quantifies the degree of risk posed, explains current and/or planned countermeasures and records any change in level of risk over time. Risk leaders have been assigned to each key risk area and they are responsible for regularly reviewing the risk statements and reporting on changes in levels of threat or opportunity.

At their meetings in November and December 2005, 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 2005 and taking into account events since 31st July 2005.

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 2004/05 the Board of Governors undertook a review of its effectiveness. Governors agreed improvements to financial management information to meet their financial reporting needs, in particular the need of ensuring more timely information. In February 2005, the Board considered its committee structure. As a result of a significant increase in the volume of business the Finance and Employment Committee (FEC) had experienced difficulty in discharging effectively its responsibilities in all of the areas within its remit. Given the development work and major decisions on the financial, estate and human resources strategies, it was agreed that the responsibilities of the FEC relating to human resources and employment matters should be handled by a separate committee, thus allowing the proper time and consideration to be given to business and for the strategic importance of human resources to be highlighted.

The Board approved the creation of two new committees, the Employment Committee and the Finance Committee, which replaced the Finance and Employment Committee. Other improvements included the appointment of a Deputy Chairman to each of the Board's committees, the addition of an extra meeting of the Board each year and changes to the operation of the Chairman's annual meetings with Governors.

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 2004/05, the University held a series of workshops for Governors on the following areas: Benchmarking: Staff and Student Experience Surveys, widening participation, QAA Institutional Audit of quality and standards, the CUC Governance Code of Practice and employment law. In addition Governors had a briefing on the agreement with the Office for Fair Access prior to the December 2004 Board meeting. In September 2004, the Audit Committee held a workshop to review the HEFCE Audit and Accountability Code of Practice, to examine the University's revised risk register and implications for the work of the Audit Committee and to consider the University's approach to value for money.

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 six 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 (until February 2005), a Finance Committee (from February 2005), an Employment Committee (from February 2005), 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 (i.e. Chair and Deputy Chair of each sub-committee) in order to coordinate effectively the business of the Board.

The Finance Committee monitors progress in respect of the strategic development of the University on behalf of the Board of Governors in the areas of finance, estate and capital programmes. The 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 arrangements for the execution of estate, building and other capital programmes within the strategic framework and annual capital budgets approved by the Board. It recommends to the Board of Governors: financial policies within the strategic framework approved by the Board; 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; estate, building and other capital programmes within the strategic framework approved by the Board and annual revenue and capital budgets and longer term projections. Finally, it advises management on finance operating and receives reports on the activities of University companies.

The Employment Committee monitors progress in respect of the strategic development of the University on behalf of the Board of Governors in the areas of human resource and employment matters. It makes recommendations to the Board on the Human Resources Strategy and employment policies. The Committee approves major agreements entered into with trades unions and advises management on personnel operating procedures, staffing strategies and human resources development.

Before its dissolution in February 2005, the Finance and Employment Committee discharged the responsibilities that have subsequently passed to the Finance Committee and the Employment Committee.

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 four 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.

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

We have audited the financial statements on pages 14 to 45, 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 20 to 22.

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 the preparation of 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 2005 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 2005 have been applied for the purposes for which they were received; and
- c) in all material respects, income during the year ended 31 July 2005 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 2005

	Note	2005 £000	2004 £000
INCOME			
Funding Council grants	2	71,482	68,364
Academic fees and support grants	3	43,357	40,389
Research grants and contracts	4	12,146	10,831
Other operating income	5	21,327	18,958
Endowment income and interest receivable	6	1,626	1,192
		<hr/>	<hr/>
Total income		149,938	139,734
		<hr/>	<hr/>
EXPENDITURE			
Staff costs	7	91,132	86,118
Depreciation	8	10,799	9,941
Other operating expenses	9	42,047	35,811
Interest payable	10	1,476	1,564
		<hr/>	<hr/>
Total expenditure		145,454	133,434
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation and before tax		4,484	6,300
Surplus on disposal of fixed assets		-	2,081
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation and disposal of assets but before tax		4,484	8,381
Taxation		-	-
		<hr/>	<hr/>
Surplus after depreciation of assets at valuation, disposal of assets and tax		4,484	8,381
		<hr/> <hr/>	<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 2005

	Note	2005 £000	2004 £000
Surplus after depreciation of assets at valuation, disposal of assets and tax		4,484	8,381
Realisation of property revaluation gains of previous years	20	-	683
Difference between an historical cost depreciation charge/fixed asset writedown and the actual depreciation charge for the year calculated on the revalued amount	20	419	419
		<hr/>	<hr/>
Historical cost surplus after tax		4,903	9,483
		<hr/>	<hr/>

SHEFFIELD HALLAM UNIVERSITY

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 July 2005

	Note	2005 £000	2004 £000
Surplus after depreciation of assets at valuation, disposal of assets and tax		4,484	8,381
New endowments	14	39	34
Endowment income retained for the year	14	3	(24)
		<hr/>	<hr/>
Total recognised gains relating to the year		4,526	8,391
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		72,008	63,617
Total recognised gains for the year		4,526	8,391
		<hr/>	<hr/>
Closing reserves and endowments		76,534	72,008
		<hr/>	<hr/>

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED BALANCE SHEET

as at 31 July 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
FIXED ASSETS					
Tangible assets	11	113,885		108,963	
Investments	13	<u>42</u>	113,927	<u>42</u>	109,005
ENDOWMENT ASSET INVESTMENTS					
	14		606		564
CURRENT ASSETS					
Stocks and stores in hand		115		164	
Debtors	15	9,600		9,949	
Short term deposits		33,438		30,353	
Cash at bank and in hand		<u>343</u>		<u>396</u>	
		43,496		40,862	
CREDITORS - amounts falling due within one year	16	<u>36,706</u>		<u>34,425</u>	
NET CURRENT ASSETS			6,790		6,437
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>121,323</u>		<u>116,006</u>
CREDITORS - amounts falling due after more than one year	17	20,464		23,145	
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>1,431</u>	<u>21,895</u>	<u>1,113</u>	<u>24,258</u>
TOTAL NET ASSETS			<u>99,428</u>		<u>91,748</u>
Represented by					
DEFERRED CAPITAL GRANTS					
	19		22,894		19,740
ENDOWMENTS					
Specific	14		606		564
RESERVES					
Revaluation reserve	20	25,651		26,070	
Capital reserve	21	774		803	
Income and expenditure	22	<u>49,503</u>	<u>75,928</u>	<u>44,571</u>	<u>71,444</u>
TOTAL FUNDS			<u>99,428</u>		<u>91,748</u>

The financial statements on pages 14 to 45 were approved on behalf of the Board of Governors on 15 December 2005.

SHEFFIELD HALLAM UNIVERSITY

UNIVERSITY BALANCE SHEET

as at 31 July 2005

	Note	2005 £000	2005 £000	2004 £000	2004 £000
FIXED ASSETS					
Tangible assets	12	107,041		102,592	
Investments	13	<u>17,537</u>	124,578	<u>17,537</u>	120,129
ENDOWMENT ASSET INVESTMENTS					
	14		606		564
CURRENT ASSETS					
Stocks and stores in hand		115		164	
Debtors	15	14,172		17,037	
Short term deposits		33,168		29,708	
Cash at bank and in hand		<u>208</u>		<u>303</u>	
		47,663		47,212	
CREDITORS - amounts falling due within one year	16	<u>38,352</u>		<u>36,892</u>	
NET CURRENT ASSETS			9,311		10,320
TOTAL ASSETS LESS CURRENT LIABILITIES			<u>134,495</u>		<u>131,013</u>
CREDITORS - amounts falling due after more than one year	17	38,555		42,607	
PROVISIONS FOR LIABILITIES AND CHARGES	18	<u>1,431</u>	<u>39,986</u>	<u>1,113</u>	<u>43,720</u>
TOTAL NET ASSETS			<u>94,509</u>		<u>87,293</u>
Represented by					
DEFERRED CAPITAL GRANTS	19		22,894		19,740
ENDOWMENTS					
Specific	14		606		564
RESERVES					
Revaluation reserve	20	25,651		26,070	
Capital reserve	21	774		803	
Income and expenditure	22	<u>44,584</u>	<u>71,009</u>	<u>40,116</u>	<u>66,989</u>
TOTAL FUNDS			<u>94,509</u>		<u>87,293</u>

The financial statements on pages 14 to 45 were approved on behalf of the Board of Governors on 15 December 2005.

SHEFFIELD HALLAM UNIVERSITY
CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2005

	Note	2005 £000	2004 £000
Cash inflow from operating activities	26	15,599	18,534
Return on investments and servicing of finance	28	153	(396)
Capital expenditure and financial investment	29	(10,178)	(7,114)
Cash inflow before use of liquid resources and financing		<u>5,574</u>	<u>11,024</u>
Management of liquid resources		(3,127)	(8,261)
Financing		(2,685)	(1,589)
Increase / (decrease) in cash		<u>(238)</u>	<u>1,174</u>
 Reconciliation of net cash flow to movement in net debt			
Increase / (decrease) in cash in the period		(238)	1,174
Increase in liquid resources		3,127	8,261
Repayment of debt		2,685	1,589
Change in net debt		<u>5,574</u>	<u>11,024</u>
Net debt at 1 August		5,421	(5,603)
Net cash / (debt) at 31 July	30	<u>10,995</u>	<u>5,421</u>

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 Specific Endowments and Donations, Research Grants, Contracts and Other Services Rendered is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. All income from short-term deposits is credited to the Income and Expenditure Account on a receivable basis.

Recurrent grants from the Funding Councils are recognised in the period in which they are receivable.

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

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 is capitalised on the basis of nature. Equipment is capitalised if it is tangible, has a life of more than one year and has a resale value for the duration of its life. The life of the asset is dependant on its categorisation within 16 categories, ranging from 2 years e.g. 'Audio visual 2yr' to ten years e.g. 'Fixed Equip, Plant, Heavy m/c 10yr'.

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 fixed equipment for new and refurbished buildings are depreciated on a straight line basis over the life according to the relevant category (for furniture this is 5 years). Depreciation on all other equipment is calculated on a straight line basis from the month of purchase, over the lifespan of the asset category.

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 23.

2. Funding Council Grants

	2005 £000	2004 £000
Higher Education Funding Council for England		
Recurrent grant	59,376	55,222
Specific grants	2,920	4,392
Teacher Training Agency		
Recurrent grant	6,900	6,381
Specific grants	115	168
Deferred capital grants released in year (Note 19)		
Buildings	1,483	1,249
Equipment	688	952
	<hr/> 71,482 <hr/>	<hr/> 68,364 <hr/>

3. <u>Academic Fees and Support Grants</u>	2005 £000	2004 £000
Full-time UG home and EU students	15,718	16,404
Full-time PG home and EU students	2,342	1,719
Part-time home and EU students	5,711	4,667
Overseas students	9,063	8,657
Fees from NHS contracts	8,223	7,258
Other fees and support grants	2,300	1,684
	<hr/>	<hr/>
	43,357	40,389
	<hr/>	<hr/>
4. <u>Research Grants and Contracts</u>	2005 £000	2004 £000
OST Research Councils	916	511
UK-based charities	1,090	710
UK central government bodies/local authorities, health & hospital authorities	8,072	7,707
UK industry, commerce and public corporations	857	643
EU government bodies	798	659
EU other	65	63
Other overseas	58	104
Other sources	290	434
	<hr/>	<hr/>
	12,146	10,831
	<hr/>	<hr/>
5. <u>Other Operating Income</u>	2005 £000	2004 £000
Residences, catering and conferences	5,617	5,487
Other services rendered	7,479	6,974
Other income	8,231	6,497
	<hr/>	<hr/>
	21,327	18,958
	<hr/>	<hr/>
6. <u>Endowment Income and Interest Receivable</u>	2005 £000	2004 £000
Transferred from specific endowments (Note 14)	19	40
Income from short term investments	1,607	1,152
	<hr/>	<hr/>
	1,626	1,192
	<hr/>	<hr/>

7. **Staff**

Staff Costs	2005 £000	2004 £000
Wages and salaries	75,658	72,104
Social Security costs	5,960	5,612
Other pension costs	7,836	7,577
Restructuring costs	1,678	825
	<hr/>	<hr/>
	91,132	86,118
	<hr/>	<hr/>
 Emoluments of the Vice-Chancellor	 2005 £000	 2004 £000
Salary	159	149
Other benefits	1	1
	<hr/>	<hr/>
	160	150
Pension contributions	21	20
	<hr/>	<hr/>
	181	170
	<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:

	2005	2004
£70,000 - £79,999	7	5
£80,000 - £89,999	1	1
£90,000 - £99,999	-	2
£100,000 - £109,999	2	3
£110,000 - £119,999	3	-
£120,000 - £129,999	1	-
£130,000 - £139,999	-	1

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

	2005	2004
Faculty/Research Institute based	1653	1,645
Academic support departments	285	290
Administration	598	577
Other	254	251
	<hr/>	<hr/>
	2,790	2,763
	<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**

	2005	2004
	£000	£000
The depreciation charge has been funded by:		
Deferred capital grants released (Note 19)	2,350	2,335
General income	8,030	7,187
Revaluation reserve released (Note 20)	419	419
	<hr/>	<hr/>
	10,799	9,941
	<hr/>	<hr/>

9. **Other Operating Expenses**

	2005	Restated
	£000	2004
		£000
Premises Costs	5,589	5,281
Furniture and Supplies	1,382	1,405
Equipment and Consumables	2,202	2,187
Books and Periodicals	1,797	1,655
Staff Development and Training	1,425	830
Staff Travel Expenses	1,655	1,319
Other Staff Costs	529	379
Students Grants and Expenses	2,966	2,875
Grants to Sheffield Hallam University Union of Students	923	767
Computers and IT	2,210	2,337
Printing and stationery	1,253	1,237
Marketing and Publicity	1,363	763
Hospitality	459	360
Postage and Communications	1,129	1,095
Professional Services	11,362	9,012
External Auditors' Remuneration – Audit: University	29	29
– Subsidiaries	11	11
– Other services	143	16
Internal Audit Services	112	81
Course and Exam Expenses	2,257	1,893
Bad Debts	1,094	899
Other Expenses	2,157	1,380
	<hr/>	<hr/>
	42,047	35,811
	<hr/>	<hr/>

10. **Interest Payable**

	2005	2004
	£000	£000
Loans not wholly repayable within five years	1,476	1,560
Finance leases	-	4
	<hr/>	<hr/>
	1,476	1,564
	<hr/>	<hr/>

11. **Tangible Fixed Assets - Consolidated**

	Land and Buildings			Assets in Course of Construction	Equipment	Total
	Freehold	Long Leasehold	Short Leasehold			
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 August 2004						
Valuation	31,302	-	-	-	-	31,302
Cost	106,258	413	2,701	705	59,561	169,638
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Additions at cost	4,699	74	-	4,825	6,123	15,721
Transfers at cost	3,396	6	-	(3,402)	-	-
Disposals at cost	-	-	-	-	(48,826)	(48,826)
Disposals at valuation	-	-	-	-	-	-
Revaluation in year	-	-	-	-	-	-
At 31 July 2005						
Valuation	31,302	-	-	-	-	31,302
Cost	114,353	493	2,701	2,128	16,858	136,533
	145,655	493	2,701	2,128	16,858	167,835
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation						
At 1 August 2004	37,633	18	2,701	-	51,625	91,977
Charge for year	5,155	26	-	-	5,618	10,799
Eliminated on disposals	-	-	-	-	(48,826)	(48,826)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2005	42,788	44	2,701	-	8,417	53,950
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Book Value						
At 31 July 2005	102,867	449	-	2,128	8,441	113,885
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2004	99,927	395	-	705	7,936	108,963
	<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.

In 2004/05 a fixed asset register was implemented. The history was transferred according to existing net book value greater than zero. Hence all assets prior to 2002/03, that had been written down to zero, were excluded from the Register. Disposals at cost of £49m represent the written down value of all assets prior to 2002/03, and this equals to £49m eliminated on disposals to give a net impact on net book value of zero.

12. **Tangible Fixed Assets - University**

	Land and Buildings			Assets in Course of Construction	Equipment	Total
	Freehold	Long Leasehold	Short Leasehold			
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 August 2004						
Valuation	31,302	-	-	-	-	31,302
Cost	89,260	16,178	2,701	705	59,168	168,012
Additions at cost	4,699	74	-	4,825	6,071	15,669
Transfers at cost	3,396	6	-	(3,402)	-	-
Disposals at cost	-	-	-	-	(48,826)	(48,826)
Disposals at valuation	-	-	-	-	-	-
Revaluation in year	-	-	-	-	-	-
At 31 July 2005						
Valuation	<u>31,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,302</u>
Cost	<u>97,355</u>	<u>16,258</u>	<u>2,701</u>	<u>2,128</u>	<u>16,413</u>	<u>134,855</u>
	<u>128,657</u>	<u>16,258</u>	<u>2,701</u>	<u>2,128</u>	<u>16,413</u>	<u>166,157</u>
Depreciation						
At 1 August 2004	34,065	8,689	2,701	-	51,267	96,722
Charge for year	4,815	814	-	-	5,591	11,220
Transfers	-	-	-	-	-	-
Eliminated on disposals	-	-	-	-	(48,826)	(48,826)
At 31 July 2005	<u>38,880</u>	<u>9,503</u>	<u>2,701</u>	<u>-</u>	<u>8,032</u>	<u>59,116</u>
Net Book Value						
At 31 July 2005	<u>89,777</u>	<u>6,755</u>	<u>-</u>	<u>2,128</u>	<u>8,381</u>	<u>107,041</u>
At 1 August 2004	<u>86,497</u>	<u>7,489</u>	<u>-</u>	<u>705</u>	<u>7,901</u>	<u>102,592</u>

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.

In 2004/05 a fixed asset register was implemented. The history was transferred according to existing net book value greater than zero. Hence all assets prior to 2002/03, that had been written down to zero, were excluded from the Register. Disposals at cost of £49m represent the written down value of all assets prior to 2002/03, and this equals to £49m eliminated on disposals to give a net impact on net book value of zero.

13. **Investments**

	Consolidated		University	
	2005	2004	2005	2004
	£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
Y&H Science Limited	Science Training	England and Wales	25

The University also consolidates the Collegiate Charitable Trust. The Trust's financial statements are prepared to 31 July 2005.

14. **Endowment Assets**

	Consolidated and University	
	2005	2004
	£000	£000
At 1 August	564	554
Income for year	22	16
New endowments	39	34
Transferred to Income and Expenditure account (Note 6)	(19)	(40)
	<hr/>	<hr/>
At 31 July	606	564
	<hr/>	<hr/>
Representing		
Prize funds	194	172
Other funds	412	392
	<hr/>	<hr/>
	606	564
	<hr/>	<hr/>

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

15. **Debtors**

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Amounts falling due within one year:				
Trade debtors	4,978	5,060	3,707	4,447
Amounts owed by group undertakings	-	-	4,048	4,538
Prepayments and accrued income	4,622	4,889	6,417	8,052
	<hr/>	<hr/>	<hr/>	<hr/>
	9,600	9,949	14,172	17,037
	<hr/>	<hr/>	<hr/>	<hr/>

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

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Bank overdrafts	247	61	247	61
Mortgages and unsecured loans	2,680	2,680	2,680	2,680
Obligations under finance leases	-	5	1,370	1,764
Payments received on account	12,860	8,836	12,717	9,010
Trade creditors	5,512	6,464	5,511	5,103
Social security and other taxation payable	3,541	3,448	3,467	3,442
Accruals and deferred income	11,866	12,931	12,360	14,129
Amounts owed to group undertakings	-	-	-	703
	36,706	34,425	38,352	36,892

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

	Consolidated		University	
	2005	2004	2005	2004
	£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	9,744	12,425	9,744	12,425
Obligations under finance leases				
Between one and five years:				
Equipment	-	-	2,326	3,669
Over five years:				
Equipment	-	-	-	28
Leasehold obligation to group undertakings	-	-	15,765	15,765
	20,464	23,145	38,555	42,607

Amounts repayable after more than one year in respect of bank loans outstanding at 31 July 2005 maybe analysed as follows:

Consolidated and University					
Lender	Date loan obtained	Final repayment date	Interest rate	Balance outstanding 2005 £000	Balance outstanding 2004 £000
Co-operative Bank	1997	2012	fixed	2,940	3,430
Barclays Bank	1999	2014	fixed	10,895	12,257
Barclays Bank	1999	2014	variable	6,629	7,458
				20,464	23,145

18. **Provisions for Liabilities and Charges**

Consolidated and University				
	Property related £000	Pensions £000	Restructuring £000	Total £000
At 1 August 2004	200	529	384	1,113
Utilised in year	-	(33)	(384)	(417)
Released in the year	-	(161)	-	(161)
Income and Expenditure account	-	294	602	896
At 31 July 2005	200	629	602	1,431

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.

19. **Deferred Capital Grants**

	Consolidated and University			
	Funding Councils £000	Other Grants £000	2005 Total £000	2004 Total £000
At 1 August				
Buildings	16,740	1,385	18,125	14,361
Equipment	1,615	-	1,615	1,423
Total	18,355	1,385	19,740	15,784
Cash Received				
Buildings	3,986	806	4,792	5,145
Equipment	711	-	711	1,146
Total	4,697	806	5,503	6,291
Released to Income and Expenditure account				
Buildings	1,483	179	1,662	1,383
Equipment	688	-	688	952
Total	2,171	179	2,350	2,335
At 31 July				
Buildings	19,244	2,012	21,256	18,123
Equipment	1,638	-	1,638	1,617
Total	20,882	2,012	22,894	19,740

20. **Revaluation Reserve**

	Consolidated and University	
	2005 £000	2004 £000
Balance brought forward at 1 August	26,070	27,172
Release in respect of assets sold in year	-	(683)
Release to Income and Expenditure reserve equivalent to depreciation on revaluation	(419)	(419)
Balance at 31 July	25,651	26,070

21. **Capital Reserve**

	Consolidated and University 2005 £000	2004 £000
Balance brought forward at 1 August	803	831
Release to Income and Expenditure reserve	(29)	(28)
	<hr/>	<hr/>
Balance at 31 July	774	803
	<hr/>	<hr/>

22. **Income and Expenditure Reserve**

	Consolidated £000	University £000
Surplus after depreciation of assets at valuation, disposal of assets and tax	4,484	4,020
Release from revaluation reserve	419	419
Release from capital reserve	29	29
	<hr/>	<hr/>
	4,932	4,468
Balance at 1 August 2004	44,571	40,116
	<hr/>	<hr/>
Balance at 31 July 2005	49,503	44,584
	<hr/>	<hr/>

23. **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	31.03.01
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	31.03.06

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	31.03.02
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 was due	31.03.05
Expected completion by	31.03.06

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 2005. The major assumptions used by the actuary were:

	2005	2004	2003
Rate of increase in salaries	4.5%	4.3%	4.0%
Rate of increase in pensions in payment	2.7%	2.8%	2.5%
Discount rate	5.0%	5.7%	5.5%
Inflation assumption	2.7%	2.8%	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 2005	Value at 31 July 2005 £000	Long term rate of return expected at 31 July 2004	Value at 31 July 2004 £000
Equities	7.5%	57,725	7.5%	46,126
Government Bonds	4.4%	15,291	5.0%	13,095
Other Bonds	5.0%	6,243	5.7%	4,414
Property	6.5%	9,862	6.5%	7,798
Other	4.75%	1,357	4.5%	2,133
		90,478		73,566

The following amounts at 31 July 2005 were measured in accordance with the requirements of FRS 17:

	31 July 2005 £000	31 July 2004 £000	31 July 2003 £000
Total fair value of assets	90,478	73,566	64,627
Present value of scheme liabilities	(121,865)	(95,785)	(85,425)
(Deficit) in the scheme – Net pension (liability)	(31,387)	(22,219)	(20,798)

If the above amounts had been recognised in the financial statements, the Institution's net assets and general reserve at 31 July 2005 would be as follows:

	31 July 2005 £000	31 July 2004 £000
Net assets excluding pension liability	99,428	91,748
Pension (liability)	(31,387)	(22,219)
	<hr/>	<hr/>
Net assets including pension liability	68,041	69,529
	<hr/> <hr/>	<hr/> <hr/>
General reserve excluding pension liability	49,503	44,571
Pension reserve	(31,387)	(22,219)
	<hr/>	<hr/>
General reserve including pension liability	18,116	22,352
	<hr/> <hr/>	<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 2005;

	Year ended 31 July 2005	
	£000	£000
Analysis of amounts charged to Income and Expenditure account:		
Current service cost		(4,105)
Past service cost		(363)
Financing:		
- expected return on pension scheme assets	5,053	
- interest on expected scheme liabilities	(5,552)	
	<hr/>	
- net cost		(499)

Analysis of amounts recognised in Statement of Total Recognised Gains and Losses:	Year ended 31 July	
	2005 £000	2004 £000
Actual return less expected return on pension scheme assets	10,806	1,758
Experience gains and losses arising on scheme liabilities	(1,391)	-
Changes in assumptions underlying the present value of scheme liabilities	(16,956)	(1,816)
	<hr/>	<hr/>
Total actuarial loss recognised	(7,541)	(58)
	<hr/>	<hr/>

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

	2005 £000	2004 £000
(Deficit) on scheme at 1 August	(22,219)	(20,798)
Movement in year:		
- current service cost	(4,105)	(3,768)
- contributions	3,340	2,972
- past service costs	(363)	(167)
- other finance (costs) / income	(499)	(400)
- actuarial loss	(7,541)	(58)
	<hr/>	<hr/>
(Deficit) on scheme at 31 July	(31,387)	(22,219)
	<hr/>	<hr/>

The experience gains and losses for the year ended 31 July 2005 were as follows:

	2005	2004
	£000	£000
Difference between the expected and actual return on scheme assets:		
Amount (£000)	10,806	(1,758)
Percentage of scheme assets	11.9%	-
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)	7,541	(58)
Percentage of the present value of the scheme liabilities	6.2%	(0.1%)

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 13 claims are stayed pending the outcome of further test cases, 19 claims have been struck out and 2 claims are awaiting further information from the applicants. 1 case has been withdrawn and one case has been settled in full.

24. **Lease Obligations**

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
The net finance lease obligations to which the University is committed are:				
Within one year	-	5	1,370	1,764
Between one and five years	-	-	2,326	3,669
Over five years	-	-	15,765	15,793
	<hr/>	<hr/>	<hr/>	<hr/>
	-	5	19,461	21,226
	<hr/>	<hr/>	<hr/>	<hr/>
Operating lease commitments for the financial year, on leases expiring:				
Within one year	210	181	210	181
Between one and five years	123	170	123	170
Over five years	771	771	3,154	3,082
	<hr/>	<hr/>	<hr/>	<hr/>
	1,104	1,122	3,487	3,433
	<hr/>	<hr/>	<hr/>	<hr/>

25. **Capital Commitments**

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Commitments contracted at 31 July	1,971	8,275	1,844	3,473
Authorised but not contracted at 31 July	4,389	6,870	4,389	6,870
	<hr/>	<hr/>	<hr/>	<hr/>
	6,360	15,145	6,233	10,343
	<hr/>	<hr/>	<hr/>	<hr/>

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

	2005 £000	2004 £000
Operating surplus	4,484	8,381
Depreciation	10,799	9,941
Deferred capital grants released to income	(2,350)	(2,335)
Investment income	(1,626)	(1,192)
Interest payable	1,476	1,564
(Increase) in stocks	49	(1)
(Increase) in debtors	349	(2,374)
Increase in creditors	2,100	6,525
Increase in provisions	318	106
Profit on sale of fixed assets	-	(2,081)
	<hr/>	<hr/>
Net Cash Inflow from Operating Activities	15,599	18,534
	<hr/>	<hr/>

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

	Finance Leases £000	Mortgages & Loans £000	Total £000
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/>
New leases/loans	-	-	-
Capital repayments	(5)	(2,680)	(2,685)
	<hr/>	<hr/>	<hr/>
Net amount (repaid) in year	(5)	(2,680)	(2,685)
	<hr/>	<hr/>	<hr/>
Balances at 31 July 2005	-	23,145	23,145
	<hr/>	<hr/>	<hr/>

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

	2005 £000	2004 £000
Income from endowments	22	16
Income from short term investments	1,607	1,152
Interest paid	(1,476)	(1,564)
	<hr/>	<hr/>
	153	(396)
	<hr/>	<hr/>

29. **Capital Expenditure and Financial Investment**

	2005 £000	2004 £000
Tangible assets acquired	(15,721)	(16,881)
Receipts from sale of fixed assets	-	3,442
	<hr/>	<hr/>
	(15,721)	(13,439)
	<hr/>	<hr/>
Deferred capital grants received	5,504	6,291
Endowments received	39	34
	<hr/>	<hr/>
	5,543	6,325
	<hr/>	<hr/>
	(10,178)	(7,114)
	<hr/>	<hr/>

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

	2004 Consolidated £000	Cash Flows £000	2005 Consolidated £000
Cash at bank and in hand	334	(238)	96
Endowment bank balance	564	42	606
	<hr/>	<hr/>	<hr/>
	898	(196)	702
Debt due over more than 1 year:			
Secured loans	(23,145)	2,680	(20,465)
Debt due less than 1 year:			
Secured loans	(2,680)	-	(2,680)
Obligations under finance leases	(5)	5	-
Short term deposits	30,353	3,085	33,438
	<hr/>	<hr/>	<hr/>
	5,421	5,574	10,995
	<hr/>	<hr/>	<hr/>

31. **Access Funds**

	2005 £000	2004 £000
Funding Council Access grants	1,387	1,700
Interest earned	26	24
	<hr/>	<hr/>
	1,413	1,724
Disbursed to students	(1,125)	(1,488)
Grants carried forward and disbursed in following year	(288)	(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.

32. **Teacher Training Agency Support Funding**

	2005	2004
	£000	£000
Initial Teacher Training Bursaries		
Funds received	3,447	3,366
Disbursed to students	(3,053)	(2,908)
	<hr/>	<hr/>
Unspent funds to be recovered	394	458
	<hr/>	<hr/>
Secondary Shortage Subjects Scheme		
Funds received	561	693
Disbursed to students	(299)	(321)
	<hr/>	<hr/>
Funds carried forward to be disbursed in following year	262	372
	<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.

33. **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 the Leadership Foundation for Higher Education (UUK) which received payments of £19,355.00 (2003/04 Nil) from the University. Professor Green was also a director of Yorkshire Universities which received payments of £13,546.27 (2003/04 £20,032).

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 2005

Isadora Aiken OBE
John Anderson (student nominee July 2005 – June 2006)
Chris Chapman
Mohammed Dajani
Frank Eul
Chris Franc (student nominee July 2004 - June 2005)
Prof Diana Green (Vice-Chancellor)
Michael Hubbard
Nicholas Jeffrey (Chairman)
Desmond Kavanagh
Daniel Khan
John Lambert
Pam Liversidge OBE
Patrick Maddock
Neil McKay CB
James Newman
Michael Renger
Vicky Seddon
Marion Simon MBE (Deputy Chairman)
Hilary Spencer
Jo Swinhoe
David Warren (student nominee July 2004 - June 2005)
Phil Wood (student nominee July 2005 – June 2006)

FINANCE AND EMPLOYMENT COMMITTEE

(met for the final time in February 2005 following a change to the Board's committee structure)

Chris Chapman
Mohammed Dajani
Frank Eul
Prof Diana Green (Vice-Chancellor)
Nicholas Jeffrey
Des Kavanagh (Deputy Chairman)
John Lambert
Pam Liversidge (Chairman)
Michael Renger
Marion Simon MBE
Jo Swinhoe

FINANCE COMMITTEE

(First meeting held in April 2005)

Chris Chapman
Mohammed Dajani
Frank Eul (Deputy Chairman)
Prof Diana Green (Vice-Chancellor)
Nicholas Jeffrey
John Lambert
Pam Liversidge OBE (Chairman)
Jo Swinhoe

EMPLOYMENT COMMITTEE

(First meeting held in June 2005)

Chris Chapman (Deputy Chairman)
Professor Diana Green (Vice-Chancellor)
Des Kavanagh
John Lambert
Pam Liversidge OBE
Neil McKay CB
James Newman
Marion Simon MBE (Chairman)

NOMINATIONS COMMITTEE

Chris Chapman
Mohammed Dajani (*from 1 November 2004*)
Mike Hubbard
Nicholas Jeffrey (Chairman)
Pam Liversidge OBE (Deputy Chairman)
Hilary Spencer
Prof Sue Yeandle
Prof Diana Green (Vice Chancellor)
Liz Winders (Clerk to the Board of Governors)

REMUNERATION COMMITTEE

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

AUDIT COMMITTEE

Daniel Khan
Neil McKay CB
James Newman
Michael Renger
Hilary Spencer (Chairman)