



*Staffordshire*  
UNIVERSITY

**2002/03**

**Governors Report**

**and**

**Financial Statements**

## **GOVERNORS, EXECUTIVES AND ADVISERS**

### **Board of Governors**

Professor Michael Hughes (Chair)  
Graham Stow (Deputy Chair)  
Christina Cassidy  
Paul Chapman (*to 2 July 2003*)  
Ken Crossland (*from 27 November 2002*)  
Bernard Crump (*from 27 November 2002*)  
Jonathan Davis (*from 1 June 2003*)  
David Dry  
John Edwards (*from 27 November 2002*)  
Lady Ann Fender  
Alan Fernyhough  
Martin Fiddler  
Margaret Hunter (*from 1 September 2002 to 31 March 2003*)  
Professor Christine King  
Nina Nannar  
Ita O'Donovan  
Bernard Price, C.B.E. (*to 11 April 2003*)  
Richard Priestley  
Nigel Pursey (*from 12 April 2003*)  
Keith Ralls  
Wendy Robinson (*to 31 August 2002*)  
Alistair Watson (*from 3 July 2003*)

### **Executive Team**

Professor Christine King	Vice-Chancellor
Paul Richards	Deputy Vice-Chancellor
Ken Sproston	University Secretary
Ian Starkie	Director of Finance
Steven Bloor	Director of Personnel

### **Auditors**

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

### **Bankers**

Lloyds TSB Plc  
5 Market Square  
Stafford  
ST16 2JL

### **Solicitors**

Martineau Johnson  
St Philips House  
St Philips Place  
Birmingham  
B3 2PP

## REPORT OF THE GOVERNORS

The Governors submit their annual report and audited accounts for the year ended 31 July 2003.

### Constitution and Activities

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

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

The University was incorporated in November 1988 and on 1 April 1989 all properties, rights and liabilities which had been used and/or held by Staffordshire County Council for the purposes of the University were transferred to the Higher Education Corporation.

The University also enjoys exempt charitable status under the Act.

On 16 June 1992, the Privy Council confirmed its formal approval of a change of name from Staffordshire Polytechnic to Staffordshire University under the terms of the Further and Higher Education Act 1992.

### Scope of the Financial Statements

The Financial Statements comprise the consolidated results for the University and its subsidiary undertakings, Staffordshire University Enterprises Limited, Octagon Computer Centre and the Friends of Staffordshire University Charitable Trust. The subsidiaries undertake a range of activities including consultancy work, the operation of recreational activities and property management for a variety of commercial and other organisations. The taxable profits of the subsidiary undertakings are transferred back to the University under a covenant arrangement.

### Results for the Year

The University's consolidated income, expenditure and results for the year to 31<sup>st</sup> July 2003 are as follows:-

	2002/03	2001/02
	£'000	£'000
Income	77,369	74,758
Expenditure	77,967	74,980
Taxation	3	7
(Deficit) on continuing operations after depreciation of assets at valuation and taxation	(601)	(229)
Historical Cost Surplus for the Year	474	866

Although modest, the retained surplus for the year compares favourably with the original forecasts. This is a result of tight control of costs.

Income has increased by 3.5%. Teaching and research work funded through the Higher Education Funding Council for England has increased by 1.7%. This reflects a small decline in the number of students enrolled at the University and its partner Colleges. However, increases in income from research and consultancy work and from work contracted with the NHS have contributed to a continuing modest growth in income.

Expenditure has increased by 1.4% in 2002/03. Staffing costs have increased by 4.3%. This is primarily because of substantial increases in employer contributions to pension schemes. Other operating expenses have reduced by £0.7m, or 3.0%. This reflects the tight controls on spending commitments throughout the University.

During the year, the University initiated a managed severance scheme. The purpose of this scheme was to facilitate a reduction in the University's staffing profile. Over 80 members of staff in the University have agreed to the termination of their employment under this scheme. The scheme includes a facility to leave the University at an agreed date up to 31 July 2004 and the majority of the terminations, including the lifetime cost of a small number of pension enhancements granted under the provisions of the scheme, have been charged to the accounts for the year ended 31 July 2003. These costs total £1.9m and have been treated as an Exceptional Item in the consolidated income and expenditure account. The annual savings which will accrue from the scheme are estimated to be over £2m.

### Capital Investments

£2.2m was invested in capital projects during the year. Much of this was spent on the completion of a major restructuring of laboratory facilities in the School of Engineering and Advanced Technology. This work was financed jointly by the University and by the Higher Education Funding Council for England (HEFCE) through their Restructuring and Collaboration Fund. It will support the reprofiling of the University's provision in Engineering and Technology through investment in high quality facilities for the University's programmes in these areas.

The University has also invested in earmarked capital allocations from the HEFCE to enhance and replace capital equipment to support teaching and learning. This investment has helped the University to offer up to date facilities for its undergraduate and postgraduate students.

## **Cashflow**

The Consolidated Cashflow Statement shows cash inflows from operating activities of £5,954,000 (2001/02: £4,692,000). Overall there was a net cash inflow of £2,183,000 (2001/02: £645,000). The acquisition of fixed assets consumed £2,112,000 (2001/02: £4,036,000) with an inflow of capital grants of £846,000 (2001/02: £2,656,000).

## **Investment Performance**

Cash deposits are invested in accordance with the University's Treasury Management Policy. The prime requirement of the policy is to ensure that the capital sum is not at risk, whilst achieving a rate of return commensurate with deposit rates achievable on the London Money Market.

Interest receivable increased in 2002/03 compared with 2001/02. Although interest rates continued to decline during the year, the availability of higher cash deposits has contributed to the increase in income from this source. The performance of cash deposits was reviewed during 2002/03 by the Employment and Finance Committee of the Board and was deemed satisfactory by the Committee.

Professor Michael Hughes  
Chair of the Board of Governors  
26 November 2003

## **CORPORATE GOVERNANCE**

The University is committed to best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to assist readers of the Financial Statements to understand how the principles have been applied.

Throughout the year ended 31 July 2003, the University has been in compliance with all the Code provisions set out in Section 1 of the Combined Code of Corporate Governance insofar as they relate to Universities. The University also complies with the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales that was issued by the Committee of University Chairmen in 1998.

### **Summary of the University's Structure of Corporate Governance**

The University's Governing Body comprises independent, co-opted, staff and student members appointed under the University's Instrument of Government. The roles of the Chair and the Deputy Chair of the Governing Body are separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specially reserved for decision by the Governing Body are set out in the Articles of Government. Under the Financial Memorandum with the Higher Education Funding Council for England, the Governing Body is responsible for the ongoing strategic direction of the University, the 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 Governing Body meets three times a year and has five Committees; an Employment and Finance committee, a Nominations committee, an Audit committee, a Remuneration committee and an Estates committee. All of these committees are formally constituted with terms of reference and comprise mainly independent members of the Governing Body. In addition the Governing Body undertakes an annual review of its own effectiveness.

The Employment and Finance committee recommends to the Governing Body the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets. It also reviews the University's annual financial statements together with the accounting policies.

The Nominations committee considers nominations for vacancies in the Governing Body membership and the reappointment of members under the Instrument of Government.

The Audit committee is responsible for meeting, at least four times a year, with the External Auditors and Internal Auditors of the University and reviewing their work. The committee approves the Audit Plan and considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's response and implementation plans. It also receives and considers reports from the Higher Education Funding Council for England as they affect the University's business and monitor adherence with the regulatory requirements. Whilst senior executives attend meetings of the Audit committee as necessary, they are not members of the committee, and the committee may meet with the External and Internal Auditors on their own for independent discussions.

The Remuneration committee is responsible for determining the employment, contractual and remuneration arrangements for designated holders of senior posts. It normally reviews the salary levels of senior post holders on an annual basis and met three times during the financial year ended 31 July 2003.

The Estates committee has responsibility for advising the Governing Body on its Estates Strategy and the monitoring of Estates related projects.

The University maintains a Register of Interests of members of the Board of Governors and of members of the University Management Team. This may be consulted by arrangement with the University Secretary.

In accordance with the Articles of Government of the University, the University Secretary has been designated Secretary to the Board and in that capacity provides independent advice on matters of governance to all Board members.

### **Interim Statement of Internal Control**

The Governing Body is responsible for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the Governing Body in the University's Instrument and Articles of Government and the Financial Memorandum with the HEFCE.

The system of internal control is designed to manage, rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principle risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. The Governing Body expects to have those procedures in place during 2003/04 that are necessary to provide a full statement on internal control for the financial year to 31 July 2004. This takes account of the time needed to fully embed the processes which the Governing Body and management have agreed should be established and to improve their robustness.

The Governing Body has undertaken the following actions to initiate its risk management strategy:-

- Drafted and adopted a risk management policy.
- Commissioned and adopted a risk management strategy.
- Agreed where the principle management responsibility rests for risk management.
- Identified the University's objectives and risks and determined a control strategy for each of the significant risks.
- Requested the Audit committee to oversee risk management.
- Requested the Audit committee to provide advice on the effectiveness of the establishment and implementation of risk management.
- Requested that the internal audit service adapts audit planning arrangements and the methodology and approach of the auditors, so that the service conforms to the latest professional standards reflecting the adoption of risk management.
- Developed an organisation wide risk register.
- Established a system of key performance and risk indicators.
- Arranged a programme of risk awareness training co-ordinated by the Internal Audit Service.

The Governing Body has ensured that the meeting calendar and agenda enable risk management and internal control to be considered on a regular basis

during the year so that there will be a full risk and control assessment before reporting on the year ending 31 July 2004. Risk management has been incorporated into the corporate planning and decision making processes of the University.

The Governing Body receives periodic reports from the Chair of the Audit committee concerning internal control and requires regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.

In addition to the actions mentioned above, in the coming year the University plans to:-

- Develop a risk register for each Faculty and Service in the University.
- Arrange for reports from senior managers in the University on internal control activities to be provided to each meeting of the Audit committee.

The University has an internal audit service which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in April 2000. The internal auditors submit regular reports which include an independent assessment on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement.

The Governing Body's review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the Executive managers within 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.

Professor Michael Hughes  
Chair of the Board of Governors  
26 November 2003

## **RESPONSIBILITIES OF THE GOVERNING BODY OF STAFFORDSHIRE UNIVERSITY**

In accordance with the Education Reform Act 1988, the Governing Body of Staffordshire University is responsible, inter alia, for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Governing Body is responsible, for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice (SORP), Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Governing Body of the University, the Governing Body through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Governing Body has to ensure 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.
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. Based on normal business planning and control procedures, the Governing Body has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. For this reason, it continues to adopt the going concern basis in preparing the University's financial statements.

The Governing Body has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions

which the Funding Council may from time to time prescribe.

- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources.
- safeguard the assets of the University and to prevent and detect fraud.
- secure the economical, efficient and effective management of the University's resources and expenditure.

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:-

- 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, with investment decisions involving capital and revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board.
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit committee and the Board of Governors.
- clear definitions of the responsibilities of, and the authority delegated to, Deans of Schools and Directors of Services.
- a professional internal audit team whose annual programme is approved by the Audit Committee.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss and during the year the Audit committee has reviewed the effectiveness of the University's system of internal financial control.

Professor Michael Hughes  
Chair of the Board of Governors  
26 November 2003

## **INDEPENDENT AUDITOR'S REPORT TO THE GOVERNING BODY OF STAFFORDSHIRE UNIVERSITY**

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

### **Respective responsibilities of the Board of Governors and auditors**

The Governing Body's responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice – Accounting for Further and Higher Education Institutions, applicable United Kingdom law and accounting standards is set out in the Statement of Responsibilities of the Governing Body.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Governing Body. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions. We also report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, 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 Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises

only the Report of the Governors and the Corporate Governance Statement.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board, and the Audit Code of Practice issued by the Higher Education Funding Council for England. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Governing Body 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 which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

### **Opinion**

In our opinion:

- i. The financial statements give a true and fair view of the state of affairs of the Corporation and the Group at 31 July 2003, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the Corporation and the Group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education Institutions.
- ii. In all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received.
- iii. In all material respects, income has been applied in accordance with the University's statutes (or equivalent) and where appropriate in accordance with the Financial Memorandum dated August 2000 with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Birmingham  
26 November 2003

## CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

For the Year Ended 31 July 2003

	Note	Year to 31 July 2003 £'000	Year to 31 July 2002 Restated £'000
<b>INCOME</b>			
Funding Council Grants	1	42,691	41,998
Academic Fees and Support Grants	2	19,697	19,190
Research Grants and Contracts	3	4,465	3,853
Other Operating Income	4	10,190	9,448
Endowment Income and Interest Receivable	5	326	269
<b>TOTAL INCOME</b>		<b>77,369</b>	<b>74,758</b>
<b>EXPENDITURE</b>			
Staff Costs	6	46,488	44,578
Depreciation	9,10	3,812	3,841
Other Operating Expenses	7	23,717	24,461
Interest Payable	8	2,045	2,100
<b>TOTAL EXPENDITURE</b>	9	<b>76,062</b>	<b>74,980</b>
<b>SURPLUS/(DEFICIT) FOR THE YEAR BEFORE EXCEPTIONAL ITEMS AND TAXATION</b>		<b>1,307</b>	<b>(222)</b>
EXCEPTIONAL ITEMS	6	1,905	0
<b>DEFICIT FOR THE YEAR AFTER EXCEPTIONAL ITEMS, BUT BEFORE TAXATION</b>		<b>(598)</b>	<b>(222)</b>
TAXATION		3	7
<b>DEFICIT FOR THE YEAR AFTER EXCEPTIONAL ITEMS AND TAXATION</b>	24	<b>(601)</b>	<b>(229)</b>

### NOTE OF HISTORICAL COST SURPLUS AND DEFICIT

	Year to 31 July 2003 £'000	Year to 31 July 2002 £'000
Reported deficit on ordinary activities	(601)	(229)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	1,075	1,095
<b>HISTORICAL COST SURPLUS ON ORDINARY ACTIVITIES</b>	<b>474</b>	<b>866</b>

The consolidated income and expenditure of the University and its subsidiaries relates wholly to continuing operations.

## BALANCE SHEET AS AT 31 JULY 2003

	Note	GROUP Restated		CORPORATION Restated	
		2003 £'000	2002 £'000	2003 £'000	2002 £'000
<b>FIXED ASSETS</b>					
Tangible Assets	10	92,891	93,931	84,683	85,498
Investments	11	225	225	225	225
		93,116	94,156	84,908	85,723
ENDOWMENT ASSET INVESTMENTS	12	104	107	104	107
<b>CURRENT ASSETS</b>					
Stocks	13	144	145	144	145
Debtors: Amounts falling due after more than one year	14	662	687	3,953	4,168
Debtors: Amounts falling due within one year	15	5,684	4,021	7,627	6,002
Pension Scheme prepayment	16	1,215	992	1,215	992
Cash at bank and in hand		7,440	5,257	7,391	5,208
		15,145	11,102	20,330	16,515
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	11,199	8,242	11,601	8,640
NET CURRENT ASSETS		3,946	2,860	8,729	7,875
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>97,166</b>	<b>97,123</b>	<b>93,741</b>	<b>93,705</b>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	18	24,424	25,351	27,715	28,832
PROVISIONS FOR LIABILITIES AND CHARGES	19	8,155	6,824	8,155	6,823
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>64,587</b>	<b>64,948</b>	<b>57,871</b>	<b>58,050</b>

## BALANCE SHEET - continued

		<b>GROUP</b>		<b>CORPORATION</b>	
		<b>Restated</b>		<b>Restated</b>	
	<b>Note</b>	<b>2003</b>	<b>2002</b>	<b>2003</b>	<b>2002</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Represented by:					
<b>DEFERRED CAPITAL GRANTS</b>	20	11,557	11,701	11,557	11,701
<b>ENDOWMENTS</b>					
Specific	21	104	107	104	107
<b>RESERVES</b>					
Capital Reserve	22	43,969	44,657	43,969	44,657
Revaluation Reserve	23	192	192	192	192
Income and Expenditure Account	24	8,765	8,291	2,049	1,393
		52,926	53,140	46,210	46,242
<b>TOTAL FUNDS</b>		<b>64,587</b>	<b>64,948</b>	<b>57,871</b>	<b>58,050</b>

The consolidated accounts of the Group include the University's wholly owned subsidiaries and the Friends of Staffordshire University Charitable Trust. The accounts of the Corporation relate solely to the Higher Education Corporation.

The financial statements on pages 8 to 37 were approved by the Board of Governors on 26 November 2003 and signed by:

**Professor Michael Hughes**  
Chair of the Board of Governors

**Professor Christine King**  
Vice-Chancellor

## CONSOLIDATED CASH FLOW STATEMENT

	Note	Year to 31 July 2003 £'000	Year to 31 July 2002 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	26	5,954	4,692
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Income from short term investments		326	269
Interest Paid		(2,065)	(2,094)
HEFCE reimbursement of interest paid		355	363
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(1,384)	(1,462)
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets		(2,112)	(4,036)
Receipts from sales of tangible fixed assets		119	1
Deferred capital grants received		846	2,656
HEFCE reimbursement of principal repayments		387	377
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE</b>		(760)	(1,002)
TAXATION		(2)	-
<b>NET CASH INFLOW AFTER TAXATION, BUT BEFORE FINANCING</b>		3,808	2,228
<b>FINANCING</b>			
New loans acquired	27	0	19
Repayment of loans	27	(1,556)	(1,449)
Capital element of finance lease repayments	27	(69)	(153)
<b>NET CASH OUTFLOW FROM FINANCING</b>		(1,625)	(1,583)
<b>INCREASE IN CASH FOR THE YEAR</b>	28,29	<b>2,183</b>	<b>645</b>

## CONSOLIDATED CASH FLOW STATEMENT - continued

### RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 30)

	<b>Year to 31 July 2003 £'000</b>	<b>Year to 31 July 2002 £'000</b>
Increase in cash in year	2,183	645
Repayment of debt	1,625	1,602
Movement arising from cash flows	3,808	2,247
New finance lease	0	(19)
<b>CHANGE IN NET DEBT</b>	<b>3,808</b>	<b>2,228</b>
<b>NET DEBT AT 1 AUGUST 2002</b>	<b>(21,716)</b>	<b>(23,944)</b>
<b>NET DEBT AT 31 JULY 2003</b>	<b>(17,908)</b>	<b>(21,716)</b>

## STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

	<b>Year to 31 July 2003 £'000</b>	<b>Year to 31 July 2002 £'000</b>
Deficit for the year	(601)	(229)
Endowment income received	-	-
Reimbursement of inherited debt	387	377
Prior year adjustment to enhanced pension provision	(2,368)	
<b>TOTAL (LOSSES)/GAINS RECOGNISED SINCE LAST ANNUAL REPORT</b>	<b>(2,582)</b>	<b>148</b>

## **STATEMENT OF ACCOUNTING POLICIES AND SIGNIFICANT ESTIMATION TECHNIQUES**

The accounting policies that the group has adopted to determine the amounts included in respect of material items in the financial statements are shown below and are in accordance with applicable accounting standards and the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions.

### **BASIS OF ACCOUNTING**

The financial statements are prepared on the historical cost basis, as modified by the revaluation of some assets.

### **BASIS OF CONSOLIDATION**

The financial statements of the University include its wholly owned subsidiaries, Staffordshire University Enterprises Ltd and Octagon Computer Centre Ltd. They also include the Friends of Staffordshire University Charitable Trust.

The consolidated financial statements do not include those of Staffordshire University Union of Students on the grounds of materiality. The separately audited financial statements are shown in summary form in note 34 of the accounts.

### **HEFCE GRANTS**

Recurrent grant from HEFCE represents the funding allocation which is attributable to the current accounting period.

Deferred credits in respect of grants received from HEFCE which are attributable to subsequent accounting periods are included in accruals and deferred income.

### **CAPITAL RESERVE**

Capital reserve represents the difference between the valuation of tangible assets inherited from Staffordshire County Council and the loan account with the County Council. This amount is released to the Income and Expenditure account over the life of the assets.

### **ACADEMIC FEES**

Academic fees represent student fees received and receivable attributable to the current accounting period.

### **TANGIBLE FIXED ASSETS**

Tangible fixed assets are stated at cost or valuation less accumulated depreciation as shown in note 10 to the financial statements.

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

### **DEPRECIATION**

Depreciation is not provided on freehold land. Freehold buildings have been depreciated over the estimated remaining useful life of each building with a base date of 1 April 1989. Depreciation on newly acquired buildings is provided for at the rate of 2% per annum on a straight line basis.

On all other tangible fixed assets depreciation is provided to write off the cost or valuation over their useful lives on a straight line basis at the following annual rates :-

Plant and Machinery	20% per annum
Fixtures and Fittings	20% per annum
Computer Equipment	33.3% per annum
Office Furniture and Equipment	20% per annum

Expenditure which extends the useful life of an asset has been depreciated over the assessed extended life of the asset.

Assets held under finance leases are depreciated over the life of the lease if this is a shorter period. Equipment costing less than £10,000 is written off in the year of acquisition.

### **LEASED ASSETS**

Payments made in respect of assets held under operating leases are charged to the income and expenditure account on a straight line basis over the term of the lease.

Leasing agreements which transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account.

**CAPITAL GRANTS**

Grants applied to acquire tangible fixed assets are credited to deferred grants and released to the income and expenditure account over the estimated useful lives of the related assets.

**STOCK**

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

**TAXATION**

The Corporation is an exempt charity and is exempt from Income Tax and Corporation Tax. Irrecoverable Value Added Tax is included in the financial statements with the expenditure to which it relates.

**FRS 19 DEFERRED TAXATION**

FRS 19 requires full provision to be made for deferred tax assets or liabilities arising from timing differences between recognition in the financial statements and in the tax computation.

Deferred taxation has been recognised as a liability or asset if transactions have occurred at the balance sheet date that give rise to an obligation to pay more taxation in future, or a right to pay less taxation in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised have not been discounted.

**INVESTMENTS**

Fixed asset investments are stated at market value. Endowment asset investments include fixed interest stocks which are stated at historical cost.

**PENSION COSTS**

Contributions to the defined benefit pension schemes are charged to the income and expenditure account so as to spread the cost of pensions evenly over employees' expected average service lives. The pension cost is assessed in accordance with the advice of actuaries.

**REPAIRS AND MAINTENANCE**

The University has a five year rolling maintenance plan which is reviewed on an annual basis. The cost of maintenance is charged to the income and expenditure account as incurred.

## NOTES TO THE FINANCIAL STATEMENTS

	Year to 31 July 2003 £'000	Year to 31 July 2002 £'000
<b>1. FUNDING COUNCIL GRANTS</b>		
Recurrent Grant		
HEFCE	38,958	39,050
LSC	127	128
TTA	161	210
Research and Selective Initiatives	2,104	1,262
HEFCE Reimbursement of Inherited Liabilities	351	363
Release of Capital Grants		
Buildings	187	175
Equipment	803	810
	<b>42,691</b>	<b>41,998</b>
<b>2. ACADEMIC FEES AND SUPPORT GRANTS</b>		
Full-Time Students -UK/EU	10,731	11,660
Full-Time Students - Overseas	2,488	1,917
Part-Time Fees	1,140	1,027
Education Contracts	4,479	3,796
Short Course Fees	859	790
	<b>19,697</b>	<b>19,190</b>
<b>3. RESEARCH GRANTS AND CONTRACTS</b>		
Research Councils	277	187
UK Based Charities	168	97
UK Industry and Commerce	492	320
UK Central Government/Health Authorities	535	366
Teaching Company Schemes	275	385
European Community Programmes	1,932	1,622
Other Research Grants and Contracts	786	876
	<b>4,465</b>	<b>3,853</b>
<b>4. OTHER OPERATING INCOME</b>		
Residences, Catering and Conferences	5,013	4,993
Consultancy/Self Financing Fees	3,101	2,756
Other Rents/Lettings	326	300
Other Income	1,750	1,399
	<b>10,190</b>	<b>9,448</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

	Year to 31 July 2003 £'000	Year to 31 July 2002 £'000
<b>5. ENDOWMENT INCOME AND INTEREST RECEIVABLE</b>		
Investment Income	325	267
Endowment Income	1	2
	<b>326</b>	<b>269</b>

### 6. STAFF

	Ordinary Activities £'000	Exceptional Costs £'000	31 July 2003 Total £'000	31 July 2002 Total Restated £'000
<b>Staff Costs</b>				
Wages	39,179		39,179	38,475
Social Security Costs	2,754		2,754	2,658
Other Pension Costs	4,555	771	5,326	3,324
Redundancy/Managed Severance Scheme	0	1,134	1,134	121
	<b>46,488</b>	<b>1,905</b>	<b>48,393</b>	<b>44,578</b>

The restatement arises from a decision to reclassify payments totalling £233k associated with the delivery of externally funded projects as other operating expenses (see note 7), rather than staffing costs.

	Year to 31 July 2003 £'000	Year to 31 July 2002 £'000
Emoluments of the Vice-Chancellor	<b>132</b>	<b>125</b>

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to the Teachers' Superannuation Scheme are paid at the same rate as for other academic staff and amounted to £14,528 (2002: £9,549)

	2003 Number	2002 Number
<b>Average Staff Numbers by Major Category</b>		
Management	40	59
Academic	582	609
Administrative, Professional, Technical and Clerical Staff	856	890
Manual Staff	210	216
	<b>1,688</b>	<b>1,774</b>
<b>Remuneration of other higher paid staff, excluding employer's pension contributions</b>		
£70,000 - £79,999	2	3

## NOTES TO THE FINANCIAL STATEMENTS - continued

	Year to 31 July 2003 £'000	Year to 31 July 2002 Restated £'000
<b>7. OTHER OPERATING EXPENSES</b>		
Consumables	1,720	1,883
Equipment and Tools	3,610	3,697
Books and Periodicals	857	885
Printing - External and Internal	432	550
Protective Clothing/Laundry/Uniforms	56	136
Repairs and General Maintenance	1,422	1,783
Heat, Light, Water and Power	1,273	1,187
Rent and Rates	1,553	1,561
Staff and Student Development	1,080	1,273
Travel and Subsistence	1,189	1,216
Student Union Contributions	475	475
Auditors' Remuneration (Corporation)	30	26
Auditors' Remuneration (Subsidiaries)	7	7
Auditors' Remuneration in Respect of Non-Audit Services	58	34
Irrecoverable VAT Input Tax	1,541	1,731
Payments to Franchise Colleges	3,512	3,703
Telephones and Postages	668	803
Insurance	434	230
Publicity and Prospectus	775	655
Vehicle Hire/Lease	178	232
Other Expenses	901	904
Professional Charges	735	592
Payment to International Partners	651	368
Security	320	303
Movement in Provision for Bad/Doubtful Debts	240	227
	<b>23,717</b>	<b>24,461</b>
Restatement of year to 31 July 2002 (see note 6)		
<b>8. INTEREST PAYABLE</b>		
Loan not wholly repayable within five years	2,044	2,091
Finance Leases	1	9
	<b>2,045</b>	<b>2,100</b>

## 9. ANALYSIS OF EXPENDITURE BY ACTIVITY

	Staff Costs £'000	Dep'n £'000	Other Operating Expenses £'000	Interest Payable £'000	Total £'000
Academic Departments	28,319	1,488	8,683		38,490
Academic Services	5,073	1,435	1,960		8,468
Research Grants & Contracts	1,944	-	2,379		4,323
Residences, Catering & Conferences	1,320	491	3,073	977	5,861
Premises	1,231	65	2,455		3,751
Administration	6,361	333	3,426		10,120
Other Expenses	2,240	-	1,741	1,068	5,049
<b>Total Income and Expenditure Account</b>	<b>46,488</b>	<b>3,812</b>	<b>23,717</b>	<b>2,045</b>	<b>76,062</b>

The depreciation has been funded by:	£'000
Deferred Capital Grants Released (note 20)	990
Transfer from Capital Reserve (note 22)	1,075
General Income	1,747
	<u>3,812</u>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 10. TANGIBLE FIXED ASSETS - Group

	Freehold Land and Buildings £'000	Assets in Course of Construction £'000	Computer Equipment £'000	Leased Computer Equipment £'000	Other Equipment And Fittings £'000	Leased Equipment and Fittings £'000	TOTAL £'000
<b>COST OR VALUATION</b>							
At 1 August 2002	109,236	2,663	10,060	351	4,982	808	<b>128,100</b>
Additions	1,784	0	724		400		<b>2,908</b>
Reclassifications	2,150	(2,663)	201		312		<b>0</b>
Disposals	(820)		(1,141)		(372)		<b>(2,333)</b>
At 31 July 2003	112,350	0	9,844	351	5,322	808	<b>128,675</b>
<b>DEPRECIATION</b>							
At 1 August 2002	23,294	0	7,364	325	2,623	563	<b>34,169</b>
Elimination on disposals	(799)	0	(1,124)		(274)		<b>(2,197)</b>
Depreciation for year	2,104	0	1,081	11	516	100	<b>3,812</b>
At 31 July 2003	24,599	0	7,321	336	2,865	663	<b>35,784</b>
Net Book Value At 31 July 2003	87,705	46	2,523	15	2,457	145	<b>92,891</b>
Net Book Value At 31 July 2002	85,940	2,665	2,698	27	2,358	243	<b>93,931</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 10. TANGIBLE FIXED ASSETS - Corporation

	Freehold Land and Buildings £'000	Assets in Course of Construction £'000	Computer Equipment £'000	Leased Computer Equipment £'000	Other Equipment And Fittings £'000	Leased Equipment and Fittings £'000	TOTAL £'000
<b>COST OR VALUATION</b>							
At 1 August 2002	99,204	2,663	10,024	351	4,763	808	<b>117,813</b>
Additions	1,781	0	724	0	400	0	<b>2,905</b>
Reclassifications	2,150	(2,663)	201		312		<b>0</b>
Disposals	(820)		(1,141)		(372)		<b>(2,333)</b>
At 31 July 2003	102,315	0	9,808	351	5,103	808	<b>118,385</b>
<b>DEPRECIATION</b>							
At 1 August 2002	21,583	0	7,328	325	2,516	563	<b>32,315</b>
Elimination on disposals	(799)		(1,124)		(274)		<b>(2,197)</b>
Depreciation for year	1,906	0	1,081	11	486	100	<b>3,584</b>
At 31 July 2003	22,690	0	7,285	336	2,728	663	<b>33,702</b>
Net Book Value At 31 July 2003	79,579	46	2,523	15	2,375	145	<b>84,683</b>
Net Book Value At 31 July 2002	77,622	2,664	2,695	27	2,246	244	<b>85,498</b>

As a result of the Education Reform Act 1988, the freehold and leasehold interests in properties occupied by the Corporation, previously held by Staffordshire County Council, were formally transferred, under the direction of the Education Assets Board, to the Corporation itself with effect from 1 April 1989.

Freehold buildings, to which the Corporation now has title, were professionally revalued at 1 April 1989 on the basis of replacement cost at that date. The surplus was taken to the capital reserve. Freehold land was revalued on an open market, existing use basis at the same date.

Computer equipment, other equipment and fittings belonging to the University were revalued at 31 July 1995.

The transitional rules set out in FRS 15 "Tangible Fixed Asset" have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

In December 1996 the University entered into a joint venture agreement with Tamworth and Lichfield College to provide a new campus facility at Lichfield. The cost of this project was £3.2m. The project was partly funded by a grant from the European Regional Development Fund and by a loan facility taken out by the University. Responsibility for the loan is shared jointly by the University and the College and the value of the College's commitment is shown as a long term debtor in the University's Balance Sheet (see note 14).

During 2002/03 the University and the College entered into an agreement for the development of a second phase at the Lichfield campus. This phase was partly funded by a loan facility taken out by the College. Responsibility for the loan is shared jointly by the University and the College and the value of the University's commitment is shown as a long term creditor in the University's Balance Sheet (see note 18).

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 11. FIXED ASSET INVESTMENTS

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Artefacts	192	192	192	192
Investments	33	33	33	33
<b>Total</b>	<b>225</b>	<b>225</b>	<b>225</b>	<b>225</b>

The value of the Thornhill Bequest, a collection of medieval Chinese pottery owned by the University, is included as a fixed asset investment. The value is based on a valuation made for insurance purposes as at 5th February 1998. The valuation was undertaken by professional advisors expert in this field.

The University has a £33,000 investment in CVCP Properties.

The investments in subsidiaries, which cost £4, are detailed below:

Professor M A Hughes and Professor C E King as nominees of the Corporation hold all the issued share capital of Staffordshire University Enterprises Limited, a company incorporated in and operating in Great Britain and registered in England and Wales. The main areas of activity of Staffordshire University Enterprises Limited are the undertaking of consultancy work and the operation of recreational activities.

Professor M A Hughes and Professor C E King as nominees of the Corporation also hold all the issued share capital of Octagon Computer Centre Limited, a company incorporated in and operating in Great Britain and registered in England and Wales. The principal activity of the company is to act as a property management company.

The Friends of Staffordshire University Charitable Trust is regarded as a quasi-subsiidiary of the University under the definition provided in Financial Reporting Standard 5. Under the provisions of this standard the accounts of the Trust have been consolidated in the group accounts of the University for the year ended 31 July 2003.

### 12. ENDOWMENT ASSET INVESTMENTS

	GROUP AND CORPORATION	
	2003 £'000	2002 £'000
Balance at 1 August 2002	107	111
Additions		
Interest Received	1	2
Prize Fund payments	(4)	(6)
<b>Balance at 31 July 2003</b>	<b>104</b>	<b>107</b>
Represented by:		
Fixed interest stocks	7	7
Bank balances	97	100
	<b>104</b>	<b>107</b>

All fixed interest stocks are listed investments and are stated at historical cost.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 13. STOCK

#### GROUP AND CORPORATION

	2003 £'000	2002 £'000
Raw materials and consumables	144	145

### 14. DEBTORS: Amounts falling due after more than one year

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Amounts owed by subsidiary undertaking		-	3,291	3,481
Amounts owed under joint arrangement with Tamworth and Lichfield College Phase 1 (note 10)	662	687	662	687
	<b>662</b>	<b>687</b>	<b>3,953</b>	<b>4,168</b>

### 15. DEBTORS: Amounts falling due within one year

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Trade debtors	1,977	2,635	1,939	2,591
Amounts owed by subsidiary undertakings	-	-	2,000	2,051
Other debtors	798	745	780	723
Prepayments and accrued income	2,909	641	2,908	637
	<b>5,684</b>	<b>4,021</b>	<b>7,627</b>	<b>6,002</b>

### 16. PENSION SCHEME PREPAYMENT

The assessed value of the variation from the regular cost of the University's contributions to the Staffordshire County Council Superannuation Scheme has been isolated from the regular cost. The additional cost of £1,215,000 (2002: £992,000) gives rise to a prepayment. This prepayment will be charged to the Income and Expenditure account over a period which matches the benefit derived from the services of University employees.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 17. CREDITORS: Amounts falling due within one year:

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Loans	1,597	1,557	1,787	1,747
Obligations under finance leases	17	64	17	64
Trade creditors	2,277	2,152	2,262	2,144
Amounts owed to subsidiary undertakings	-	-	263	266
Other taxation and social security	1,642	1,470	1,615	1,439
Other creditors	817	854	814	841
Accruals and deferred income	4,849	2,145	4,843	2,139
	<b>11,199</b>	<b>8,242</b>	<b>11,601</b>	<b>8,640</b>

### 18. CREDITORS: Amounts falling due after more than one year:

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Bank loan account	18,169	18,968	18,169	18,968
Staffordshire County Council loan account	4,135	4,466	4,135	4,466
Building Society Mortgage	1,421	1,886	1,421	1,886
Obligations under finance leases	8	31	8	31
Tamworth & Lichfield College Phase 2 (note 10)	691	-	691	-
Amounts owed to subsidiary company	-	-	3,291	3,481
	<b>24,424</b>	<b>25,351</b>	<b>27,715</b>	<b>28,832</b>

### LOAN OBLIGATIONS

	GROUP		CORPORATION	
	2003 £'000	2002 £'000	2003 £'000	2002 £'000
Between one and two years	1,649	1,597	1,839	1,787
Between two and five years	5,064	5,552	5,634	6,122
Over five years	17,012	19,941	19,543	20,891
	23,725	27,090	27,016	28,800
Within one year	1,597	1,557	1,787	1,747
	<b>25,322</b>	<b>28,647</b>	<b>28,803</b>	<b>30,547</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

The table below provides details of the University's bank loans

Original Loan £'000	Outstanding Balance at 31 July 2003 £'000	Interest Basis	Repayment Terms	Security
3,000	2,100	8.7% fixed until January 2008	Equal principal repayments over 20 years starting in December 1992.	University academic accommodation at the Stoke and Stafford campuses.
2,000	1,400	8.5% fixed until January 2009	Equal principal repayments over 20 years starting in January 1994	University academic accommodation at the Stoke and Stafford campuses.
3,200	2,454	8.0% fixed until July 2010	Equal principal repayments over 19 years starting in July 1995	University academic accommodation at the Stoke campus.
3,600	3,302	6.4% fixed until April 2011	Equal principal repayments over 15 years starting from October 2001	University student residential accommodation at the Stafford campus.
1,900	940	8.3% fixed until August 2007	Equal principal repayments over 10 years starting from August 1997.	University academic accommodation at the Stafford Campus.
1,600	1,374	7.9% fixed until August 2003	Equal principal repayments over 20 years starting from August 1998.	University academic accommodation at the Lichfield Campus owned jointly with Tamworth and Lichfield College.
3,900	3,900	7.5% fixed until August 2005	Interest only for 5 years starting from August 2000. Equal principal repayments for 15 years starting August 2005.	University student residential accommodation at the Stafford campus.
3,500	3,500	7.2% fixed until October 2005	Interest only for 5 years starting from August 2000. Equal principal repayments for 15 years starting October 2005.	University student residential accommodation at the Stoke campus.

The Staffordshire County Council loan account comprises numerous, unsecured loans repayable between one and forty years. All loans bear interest at the current rate on the County Council's Consolidated Loans Fund. At 31 July 2003 the current interest rate was 6.6%.

The Building Society Mortgage is repayable over 15 years. The mortgage will be fully repaid in December 2006. The University is paying interest at a rate of 9.6% fixed up to the final repayment. The mortgage is secured on student residential accommodation with a total open market valuation of £5.5m as at January 1997.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 19. PROVISIONS FOR LIABILITIES AND CHARGES

#### GROUP AND CORPORATION

	<b>Pension Enhancement</b>	<b>Deferred Taxation</b>	<b>2003 Total</b>	<b>2002 Total Restated</b>
	£'000	£'000	£'000	£'000
At 1 August 2002	6,822	1	6,823	4,455
Prior year adjustment	-	-	-	2,368
At 1 August 2002 as restated	6,822	1	6,823	6,823
Utilised in the year	(523)	(1)	(524)	-
Charge to Income and Expenditure Acct	1,856	-	1,856	-
<b>At 31 July 2003</b>	<b>8,155</b>	<b>0</b>	<b>8,155</b>	<b>6,823</b>

Following a detailed review of the calculation of the enhanced pension provision in light of the latest guidance on assumptions, the University has identified an error in the initial documentation when the provision was established in 1992. This has resulted in a prior period adjustment being recognised against opening balances as at 1 August 2001, thereby increasing the opening enhanced pension provision by £2,368k (note 19) and decreasing the Income and Expenditure Reserve by £2,368k (note 24).

### 20. DEFERRED CAPITAL GRANTS

#### GROUP AND CORPORATION

	<b>Buildings</b>	<b>Equipment</b>	<b>2003 Total</b>	<b>2002 Total</b>
	£'000	£'000	£'000	£'000
At 1 August 2002	8,256	3,445	11,701	10,030
Add cash received	339	507	846	2,656
Released to Income and Expenditure	(187)	(803)	(990)	(985)
<b>At 31 July 2003</b>	<b>8,408</b>	<b>3,149</b>	<b>11,557</b>	<b>11,701</b>

### 21. ENDOWMENTS RESERVE

#### GROUP AND CORPORATION

	<b>2003 Specific</b>	<b>2002 Specific</b>
	£'000	£'000
At 1 August 2002	107	111
Net Income for year	(3)	(4)
<b>At 31 July 2003</b>	<b>104</b>	<b>107</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 22. CAPITAL RESERVE

#### GROUP AND CORPORATION

	<b>2003</b> £'000	<b>2002</b> £'000
At 1 August 2002	44,657	45,375
Add HEFCE reimbursement of loan repayments	387	377
Less Release of capital reserve (note 9)	(1,075)	(1,095)
<b>At 31 July 2003</b>	<b>43,969</b>	<b>44,657</b>

### 23. REVALUATION RESERVE

#### GROUP AND CORPORATION

	<b>2003</b> £'000	<b>2002</b> £'000
<b>As at 31 July 2003</b>	<b>192</b>	<b>192</b>

The revaluation reserve relates to the Artefacts included in note 11.

### 24. INCOME AND EXPENDITURE ACCOUNT

	<b>2003</b> £'000	<b>2002</b> <b>Restated</b> £'000
<b>GROUP</b>		
As at 1 August 2002	8,291	9,793
Prior year adjustment	-	(2,368)
At 1 August 2002 as restated	8,291	7,425
Deficit for the year	(601)	(229)
Transfer from capital reserve	1,075	1,095
<b>At 31 July 2003</b>	<b>8,765</b>	<b>8,291</b>
<b>CORPORATION</b>		
At 1 August 2002	1,393	2,729
Prior year adjustment	-	(2,368)
At 1 August 2002 as restated	1,393	361
Deficit for the year	(419)	(63)
Transfer from capital reserve	1,075	1,095
<b>At 31 July 2003</b>	<b>2,049</b>	<b>1,393</b>

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 25. LEASE OBLIGATIONS

#### GROUP AND CORPORATION

	<b>2003</b> £'000	<b>2002</b> £'000
Obligations under finance leases fall due as follows:		
Within one year	18	64
Between one and two years	8	22
Between two and five years	-	9
	<b>26</b>	<b>95</b>

Annual commitments on operating leases in respect of assets other than land and buildings on leases expiring as follows are:

	<b>2003</b> £'000	<b>2002</b> £'000
Within one year	215	224
Between two and five years	314	183
	<b>529</b>	<b>407</b>

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### 26. NET CASH FLOW FROM OPERATING ACTIVITIES

	<b>Year to 31 July 2003 £'000</b>	<b>Year to 31 July 2002 £'000</b>
Deficit for the year before taxation and transfers from reserves	(598)	(229)
Interest Receivable	(326)	(269)
HEFCE Reimbursement Receivable	(351)	(363)
	<u>(1,275)</u>	<u>(861)</u>
Add back interest payable	2,045	2,100
Surplus from operating activities	770	1,239
Release of capital grant	(990)	(985)
Depreciation	3,812	3,841
Loss on sale of fixed assets	16	116
Decrease in stock	1	25
(Increase)/Decrease in debtors	(1,865)	235
Increase in creditors	2,879	220
Increase in provisions	1,331	1
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b>5,954</b>	<b>4,692</b>

### 27. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	<b>Building Society Mortgage £'000</b>	<b>LEA Loan Account £'000</b>	<b>Finance Leases £'000</b>	<b>Bank Loans £'000</b>
Balance at 1 August 2002	2,308	4,857	95	19,713
Cash outflows from financing	<u>(425)</u>	<u>(387)</u>	<u>(69)</u>	<u>(744)</u>
<b>Balance at 31 July 2003</b>	<b>1,883</b>	<b>4,470</b>	<b>26</b>	<b>18,969</b>

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued

### 28. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR

	£'000
Balance at 1 August 2002	5,257
Net cash inflow	2,183
	<hr/>
<b>Balance at 31 July 2003</b>	<b>7,440</b>
	<hr/>

### 29. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS

	2003 £'000	2002 £'000	2003 Change in Year £'000	2002 £'000	2001 £'000	2002 Change In Year £'000
<b>Cash at bank and in hand</b>	<b>7,440</b>	<b>5,257</b>	<b>2,183</b>	<b>5,257</b>	<b>4,612</b>	<b>645</b>

### 30. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	Year Ended 31 July 2003 £'000	Year Ended 31 July 2002 £'000
Increase in cash in year	2,183	645
Repayment of debt	1,625	1,602
New loans	0	(19)
Movement arising from cash flows	3,808	2,228
New finance lease	0	0
<b>CHANGE IN NET DEBT</b>	<b>3,808</b>	<b>2,228</b>
<b>NET DEBT AT 1 AUGUST 2002</b>	<b>(21,716)</b>	<b>(23,944)</b>
<b>NET DEBT AT 31 JULY 2003</b>	<b>(17,908)</b>	<b>(21,716)</b>

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued

### ANALYSIS OF CHANGES IN NET DEBT

	<b>August 2002</b> £'000	<b>Cash Flows 2003</b> £'000	<b>Other Movements</b> £'000	<b>July 2003</b> £'000
Cash in hand, at bank	5,257	2,183		7,440
Debt due within 1 year	(1,557)	1,557	(1,597)	(1,597)
Debt due after 1 year	(25,321)	(1)	1,597	(23,725)
Finance Leases	(95)	69		(26)
	<b>(21,716)</b>	<b>3,808</b>	<b>0</b>	<b>(17,908)</b>

### 31. CAPITAL COMMITMENTS

#### GROUP AND CORPORATION

	<b>2003</b> £'000	<b>2002</b> £'000
<b>Contracted for</b>	<b>0</b>	<b>636</b>

## NOTES TO THE FINANCIAL STATEMENTS – continued

### 32. CONTINGENT LIABILITIES

The University is a member of UMALT, a company limited by guarantee formed to provide a mutual association for terrorism risks. Under the terms of its membership, each member acts as insurer and insured. If the association as a whole suffers a shortfall in any underwriting year, the members are liable for their prorated share, spread using a bank facility over 7 years. The University is a guarantor, on a joint and several basis with other members, of this £60 million bank facility. No liability has yet arisen under this guarantee.

### 33. PENSION COSTS

Retirement benefits for employees of the University are provided by defined benefit schemes which are funded by contributions from the University and employees. Payments are made to the Teachers Superannuation Scheme for academic staff and to the Staffordshire County Council Superannuation Scheme for non-academic staff. These are both independently administered schemes.

#### Teachers' Pension Scheme

The Teachers Pension Scheme (TPS) is an unfunded scheme. Contributions on a 'pay as you go' basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972. Actuarial valuations are carried out on a notional set of investments.

Under the definitions set out in Financial Reporting Standard 17 Retirement Benefits, the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The University has set out below the information available on the deficit in the scheme and the implications for the University in terms of the anticipated contribution rates.

The pensions cost is assessed every five years in accordance with the advice of the government. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective benefits.
Investment returns	7.0% per annum
Salary scale increases	5.0% per annum
Value of notional assets at date of last valuation. (Estimated future contributions together with notional investments held at 31 March 2001).	£142,880 million
Proportion of members' accrued benefits covered by the actuarial value of the assets.	100%

## NOTES TO THE FINANCIAL STATEMENTS – continued

Following the implementation of Teachers' Pensions (Employers' Supplementary contributions) Regulations 2000 the government actuary carried out a further review on the level of employers' contributions. For the period from 1 April 2002 to 31 March 2003 the employer contribution was 8.35%. This rate increased to 13.5% from 1 April 2003.

### Local Government Pension Scheme

The Local Government Superannuation Scheme (LGSS) is regulated by statute, with separate regulations for (a) England and Wales and (b) Scotland. The benefits of the LGSS are determined nationally by regulation and meet the definition of a defined benefit scheme.

The LGSS is a funded scheme, with some 100 separate funds administered locally by administering authorities. Each fund has a number of employing authorities. Staffordshire County Council is the administering authority with the District Councils in the County being employing authorities within that scheme. Each fund will also have admitted bodies, such as education institutions, whose employees are members of the LGSS. The LGSS is not therefore a national multi-employer scheme, but each separate LGSS fund is a multi-employer scheme.

The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2001, with the next formal valuation due as at 31 March 2004. A valuation of the Fund's liabilities as at 31 July 2003 has been undertaken by the Fund's actuary. The following valuation data has been used for the purposes of this disclosure.

- The individual membership data submitted for the previous formal valuation as at 31 March 2001;
- Employer and employee contributions up to 31 July 2003;
- Actual fund returns up to 30 June 2003; and
- Any new early retirements in the accounting period on unreduced pensions which are not anticipated in the normal employer service cost (e.g. non ill-health retirements before the earliest of the employee's Rule of 85 retirement age or normal retirement age, which are not reduced).

### FRS 17

The following information is based upon a full actuarial valuation of the Fund at 31 March 2001, updated to 31 July 2003 by a qualified independent actuary.

	At 31 July 2003	At 31 July 2002
Inflation	2.6%	2.4%
Rate of increase in salaries	4.1%	3.9%
Rate of increase for pensions	2.6%	2.4%
Discount rate for liabilities	5.5%	6.0%

## NOTES TO THE FINANCIAL STATEMENTS – continued

The assets in the scheme (of which the Group's share is estimated at 2.76%) and the expected rates of return were:

	<b>Long-term rate of return expected at 31 July 2003</b>	<b>Value at 31 July 2003 £'000</b>	<b>Long-term rate of return expected at 31 July 2002</b>	<b>Value at 31 July 2002 £'000</b>
Equities	8.0%	1,021,300	8.0%	1,085,369
Bonds	5.0%	191,100	5.5%	212,371
Property	6.0%	132,200	6.0%	147,745
Cash	3.5%	9,300	4.0%	45,717
Total Market Value of Assets		1,353,900		1,491,202

	<b>Year Ended 31 July 2003 £'000</b>	<b>Year Ended 31 July 2002 £'000</b>
Group's estimated asset share	37,500	33,924
Present value of scheme liabilities	(65,160)	(50,315)
Deficit in the scheme	(27,660)	(16,391)

Under the transitional arrangements of FRS 17, no provision has been made by the Group for the Institution's share of the deficit of the scheme. If provision were made, the following entries would be made:

### Balance Sheet Presentation

	<b>Year Ended 31 July 2003 £'000</b>	<b>Year Ended 31 July 2002 Restated £'000</b>
Net assets excluding FRS17 liability	71,527	68,411
Net pension liability	(27,660)	(16,391)
Net assets including FRS17 pensions liability	43,867	52,020

## NOTES TO THE FINANCIAL STATEMENTS – continued

### Reserves Note

	<b>Year Ended 31 July 2003</b>	<b>Year Ended 31 July 2002 Restated</b>
	£'000	£'000
Income and expenditure account excluding FRS 17 pension liability	15,705	14,123
Pension Reserve	(27,660)	(16,391)
Income and expenditure account including FRS 17 pension liability	(18,895)	(2,268)

Under transitional arrangements of FRS 17, the Group's pension charge for the year calculated under FRS 17 assumptions is not included in the financial statements (as this is currently calculated on a SSAP 24 basis). If the charge had been included on an FRS 17 basis, the following entries would be made.

### Analysis of the amount charged to Income and Expenditure account

	<b>Year Ended 31 July 2003</b>
	£'000
Service cost	1,840
Past service cost	0
Total operating charge	1,840

### Analysis of net return on pension return

	<b>Year Ended 31 July 2003</b>
	£'000
Expected return on pension scheme assets	2,590
Interest on pension liabilities	(2,440)
Net Return	150

## NOTES TO THE FINANCIAL STATEMENTS – continued

### Amount recognised in the statement of total recognised gains and losses (STRGL)

	<b>Year Ended 31 July 2003</b> £'000
Actual return less expected return on pension scheme assets	(770)
Experience gains and losses arising on the scheme liabilities	(2,889)
Changes in financial and demographic assumptions underlying the present value of liabilities	(7,680)
Actuarial loss recognised in STRGL	<b>(11,339)</b>

### Movement in surplus/(deficit) during the year

	<b>Year Ended 31 July 2003</b> £'000
Deficit in scheme at 1 August	(16,391)
Movement in year:	
Current service charge	(1,840)
Contributions	1,760
Past service costs	0
Net interest/return on assets	150
Actuarial gain or loss	(11,339)
<b>Deficit in scheme at 31 July</b>	<b>(27,660)</b>

### History of experience gains and losses (In practice, from 2006, 5 years must be shown)

Difference between the expected and actual return on assets	(770)
% of scheme assets	2.1%
Experience gains and losses on scheme liabilities	(2,889)
% of scheme liabilities	4.4%
Total amount recognised in STRGL	(11,339)
% of scheme liabilities	17.4%

## NOTES TO THE FINANCIAL STATEMENTS – continued

### Employers and Employees Total Contributions

	Year Ended 31 July 2003 £'000	Year Ended 31 July 2002 £'000
Contributions to TPS	3,366	2,861
Contributions to LGPS	2,716	2,529

The cost of providing pensions is part of the remuneration of employees. As such, this cost should be allocated as fairly as possible so as to match the benefit derived from the services of the University's employees. Under SSAP 24: Accounting for Pensions Costs, that element of the University's contribution which relates to the deficit in the pensions fund has been isolated from the regular pension cost, as follows:-

	£'000
Regular pension cost based on a constant percentage of earnings over the employees' service lives with the University	1,748
Variations from regular cost based on a constant percentage of current and estimated future earnings over the average service lives of current employees	<u>426</u>
	<u>2,174</u>

The regular pension cost has been charged to the Income and Expenditure account. The additional charge gives rise to a prepayment which is included in other debtors (note 16 on page 22)

The total pension charge for the year was £5,325,446 (2002: £3,323,733). The calculation of the cost of early retirement provisions charged to the income and expenditure account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns at 3.5% in excess of price inflation.

An amount of £8,155,620 (2002: £6,823,051) is included in provisions for liabilities and charges representing the extent to which the cost charged exceeds actual payments made. The provision will be released against the cost to the University of enhanced pension entitlements over the estimated life expectancy of each relevant employee.

## NOTES TO THE FINANCIAL STATEMENTS - continued

### 34. STUDENTS' UNION

The University has not consolidated the financial statements of the Staffordshire University Students' Union because they are not material to the group. The accounts of the Students' Union are separately audited by F Mazloomian & Co. The results to 31 July 2003 are summarised below.

Results for the year are:

	<b>2003</b>	<b>2002</b>
	£'000	£'000
<b>INCOME</b>	925	944
<b>EXPENDITURE</b>		
Administration Expenses	277	288
Communication	70	84
Education	14	15
Finance	75	93
Information Technology	13	25
Student Activity	207	246
Personnel/Welfare	131	115
Representation	60	64
	847	930
<b>Surplus for the Year</b>	<b>78</b>	<b>14</b>

### SUMMARY BALANCE SHEET

	<b>2003</b>	<b>2002</b>
	£'000	£'000
Fixed Assets	180	311
Net Current Assets	453	245
<b>Total Net Assets</b>	<b>633</b>	<b>556</b>

### 35. ACCESS FUNDS

	<b>Year to</b>	<b>Year to</b>
	<b>31 July</b>	<b>31 July</b>
	<b>2003</b>	<b>2002</b>
	£'000	£'000
Funding Council Grants	1,037	1,145
Interest Earned	4	5
	1,041	1,150
Disbursements to Students	(1,031)	(1,056)
<b>Balance Unspent 31 July 2003</b>	<b>10</b>	<b>94</b>

Funding Council Access grants are available solely for students; the University acts only as a paying agent. Grants and disbursements are therefore excluded from the University Income and Expenditure Account.