

**GOVERNORS, EXECUTIVES AND ADVISERS**

**Board of Governors**

Graham Stow (*Chair from 30 June 2004*)  
(*Deputy Chair to 29 June 2004*)  
Professor Michael Hughes (*Chair to 29 June 2004*)  
David Dry (*Deputy Chair from 30 June 2004*)  
Christina Cassidy (*to 31 August 2003*)  
Ken Crossland  
Bernard Crump  
Jonathan Davis  
John Edwards  
Lady Ann Fender  
Alan Fernyhough  
Martin Fiddler  
Professor Christine King  
Nina Nannar  
Keith Norris (*from 1 September 2003*)  
Ita O'Donovan  
Richard Priestley (*to 31 August 2003*)  
Nigel Pursey  
Keith Ralls  
Ann Spears (*from 1 September 2003*)  
Alistair Watson

**Executive Team**

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

**Auditors**

PricewaterhouseCoopers LLP  
Cornwall Court  
19 Cornwall Street  
Birmingham  
B3 2DT

**Bankers**

Lloyds TSB Plc  
5 Market Square  
Stafford  
ST16 2JL

**Solicitors**

Martineau Johnson  
No 1 Colmore Square  
Birmingham  
B4 6AA

**REPORT OF THE GOVERNORS**

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

**Constitution and Activities**

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

The 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 2004 are as follows:-

	2003/04	2002/03
	£'000	£'000
Income	80,979	77,369
Expenditure	80,353	77,967
Taxation	6	3
Surplus/(Deficit) on continuing operations after depreciation of assets at valuation and taxation	620	(601)
Historical Cost Surplus for the Year	1,695	474

The 2003/04 Financial Statements indicate a favourable financial year for the University. The University group made an historical cost surplus of £1.7m compared with a surplus of £0.5m in 2002/03. Operating income grew by 4.7% to £81m, whilst year on year operating costs increased by 4.0%. Cash balances increased by £6m to £13.4m helped, in part, by a reduction in debtor levels.

This outcome has been driven to a significant extent by a gradual diversification of the University's resource base and by tight control of costs. Although there has been a small decline in the number of students enrolled at the University and its partner Colleges, recurrent funding from the Higher Education Funding Council for England for core teaching and research has been maintained in real terms in 2003/04. However, income from research and consultancy work and from the recruitment of international students has shown a continuing real increase in 2003/04.

Staffing costs have increased by only £22,000 in 2003/04. Excluding exceptional costs, the year on year increase is 1.5%. The continuation of a Managed Severance Scheme, first introduced in 2002/03, and tight controls on staffing budgets during 2003/04 have both contributed to this outcome. The Managed Severance Scheme initiative has been extended in 2003/04 and costs totalling £1.2m have been treated as an exceptional item in the consolidated Income and Expenditure Account.

**Capital Investments**

£2.8m was invested in capital projects during the year. Much of this was supported by earmarked capital allocations from the Higher Education Funding Council for England to support learning and teaching through the restructuring of teaching facilities at the Stoke campus and the enhancement and replacement of capital equipment. The University has also invested in work which will enable it to meet its obligations under the Disability Discrimination Act, 1995.

**Cashflow**

The consolidated Cashflow Statement shows cash inflows from operating activities of £9,296,000 (2002/03: £5,954,000). Overall there was a net cash inflow of £5,995,000 (2002/03: £2,183,000). Payments to acquire and improve fixed assets totalled £2,848,000 (2002/03: £2,112,000) with an inflow of capital grants of £1,820,000 (2002/03: £846,000).

### **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 to £525,000 in 2003/04, compared to £326,000 in 2002/03. Although interest rates increased towards the end of the year, the availability of higher cash deposits has largely contributed to the increase in income from this source. The performance of cash deposits was reviewed during 2003/04 by the Employment and Finance Committee of the Board and was deemed satisfactory by the Committee.

### **Payment of Creditors**

It is the University's policy to obtain the best terms for all business and therefore terms are negotiated individually with suppliers. The University's policy is to abide by the specific payment terms made in those agreements.

### **Governors' Remuneration**

Governors receive no remuneration from the University in respect of activities undertaken while acting as Governors.

### **Governors' Insurance**

The University maintains insurance for its Governors in respect of their duties as Governors of the institution.

Graham Stow  
Chair of the Board of Governors  
8 December 2004

## **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 July 2003. Its purpose is to assist readers of the Financial Statements to understand how the principles have been applied.

Throughout the year ended 31 July 2004, 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 supports, and is guided by, the Guide for Members of Governing Bodies of Universities and Colleges in England and Wales and Northern Ireland that was issued by the Committee of University Chairmen in April 2001.

### **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 once during the financial year ended 31 July 2004.

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.

### **Statement of Internal Control**

As the governing body of Staffordshire University, we have responsibility 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. This process has been in place for the year ended 31<sup>st</sup> July 2004 and up to the date of approval of the Financial Statements.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established.

- We meet four times a year to consider the plans and strategic direction of the University.
- We receive periodic reports from the Chair of the Audit Committee concerning internal control, and we require regular reports from managers on the steps they are taking to manage risks in their areas on responsibility, including progress reports on key projects. Risk management is a regular item on the agendas of both the full Board and its Committees.
- We have requested the Audit Committee to provide oversight of the risk management process.
- The Audit Committee receives regular reports from the firm of accountants contracted to provide an internal audit service which includes their independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.
- A programme of facilitated workshops is held to identify and keep up to date the record of risks facing the organisation.
- A programme of risk awareness training is underway in order to increase awareness at all levels within the organisation.

- A system of key performance and risk indicators has been developed.
- A robust risk prioritisation methodology based on risk ranking has been established.
- An organisation-wide risk register is maintained and annually updated.
- Reports are received from budget holders and project managers on internal control activities.

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 September 2004. 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.

Graham Stow  
Chair of the Board of Governors  
8 December 2004

## 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, Faculty Pro Vice-Chancellors 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.

Graham Stow  
Chair of the Board of Governors  
8 December 2004

## 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 in accordance with the accounting policies set out in the Statement of Accounting Policies and significant estimation techniques.

### Respective responsibilities of the Governing Body 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 Companies Act 1985 and 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.

We also review the statement of internal control included as part of the Corporate Governance Statement and comment if the statement is inconsistent with our knowledge of the

institution. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

### Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the HEFCE Code of Practice. 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 group'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 mis-statement, 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 University and the group at 31 July 2004, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the University and the group for the year then ended; and the statements have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education.
- ii. In all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council, Teacher Training Agency grants and income for specific purposes and from other restricted funds administered by the institution 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 institution's statutes (or equivalent) and where appropriate in accordance with the financial memoranda with the Higher Education Funding Council for England dated August 2000 and October 2003.

PricewaterhouseCoopers LLP  
Chartered Accountants  
Birmingham  
8 December 2004

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT**

*For the Year Ended 31 July 2004*

	Note	Year to 31 July 2004 £'000	Year to 31 July 2003 £'000
<b>INCOME</b>			
Funding Council Grants	1	45,761	42,691
Academic Fees and Support Grants	2	19,622	19,697
Research Grants and Contracts	3	4,752	4,465
Other Operating Income	4	10,319	10,190
Endowment Income and Interest Receivable	5	525	326
<b>TOTAL INCOME</b>		<b>80,979</b>	<b>77,369</b>
<b>EXPENDITURE</b>			
Staff Costs	6	47,191	46,488
Depreciation	9,10	4,150	3,812
Other Operating Expenses	7	25,934	23,717
Interest Payable	8	1,854	2,045
<b>TOTAL EXPENDITURE</b>	9	<b>79,129</b>	<b>76,062</b>
<b>SURPLUS FOR THE YEAR BEFORE EXCEPTIONAL ITEMS AND TAXATION</b>		<b>1,850</b>	<b>1,307</b>
EXCEPTIONAL ITEMS	6	1,224	1,905
<b>SURPLUS/(DEFICIT) FOR THE YEAR AFTER EXCEPTIONAL ITEMS, BUT BEFORE TAXATION</b>		<b>626</b>	<b>(598)</b>
TAXATION		6	3
<b>SURPLUS/(DEFICIT) FOR THE YEAR AFTER EXCEPTIONAL ITEMS AND TAXATION</b>	23	<b>620</b>	<b>(601)</b>

**NOTE OF HISTORICAL COST SURPLUS AND DEFICIT**

	Year to 31 July 2004 £'000	Year to 31 July 2003 £'000
Reported surplus/(deficit) on ordinary activities	620	(601)
Difference between historical cost depreciation charge and the actual depreciation charge calculated on the revalued amount	1,075	1,075
<b>HISTORICAL COST SURPLUS ON ORDINARY ACTIVITIES</b>	<b>1,695</b>	<b>474</b>

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

**BALANCE SHEET AS AT 31 JULY 2004**

	Note	GROUP Restated		CORPORATION Restated	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>FIXED ASSETS</b>					
Tangible Assets	10	91,575	92,891	83,589	84,683
Investments	11	33	33	33	33
		<u>91,608</u>	<u>92,924</u>	<u>83,622</u>	<u>84,716</u>
ENDOWMENT ASSET INVESTMENTS	12	295	296	295	296
<b>CURRENT ASSETS</b>					
Stocks	13	160	144	160	144
Debtors: Amounts falling due after more than one year	14	632	662	3,733	3,953
Debtors: Amounts falling due within one year	15	5,120	5,684	6,925	7,627
Pension Scheme prepayment	16	1,374	1,215	1,374	1,215
Cash at bank and in hand		13,435	7,440	13,394	7,391
		<u>20,721</u>	<u>15,145</u>	<u>25,586</u>	<u>20,330</u>
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	17	14,740	11,199	15,065	11,601
NET CURRENT ASSETS		5,981	3,946	10,521	8,729
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>97,884</b>	<b>97,166</b>	<b>94,438</b>	<b>93,741</b>
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR	18	22,770	24,424	25,871	27,715
PROVISIONS FOR LIABILITIES AND CHARGES	19	8,997	8,155	8,997	8,155
<b>TOTAL ASSETS LESS LIABILITIES</b>		<b>66,117</b>	<b>64,587</b>	<b>59,570</b>	<b>57,871</b>

The restatement relates to the reclassification of Endowment Asset investments which is explained in notes 11 and 12.

**BALANCE SHEET - continued**

	Note	GROUP Restated		CORPORATION Restated	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
Represented by:					
<b>DEFERRED CAPITAL GRANTS</b>	20	12,138	11,557	12,138	11,557
<b>ENDOWMENTS</b>					
Specific	21	295	296	295	296
<b>RESERVES</b>					
Capital Reserve	22	43,224	43,969	43,224	43,969
Income and Expenditure Account	23	10,460	8,765	3,913	2,049
		53,684	52,734	47,137	46,018
<b>TOTAL FUNDS</b>		<b>66,117</b>	<b>64,587</b>	<b>59,570</b>	<b>57,871</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 38 were approved by the Board of Governors on 8 December 2004 and signed by:

**Graham Stow**  
Chair of the Board of Governors

**Professor Christine King**  
Vice-Chancellor

**CONSOLIDATED CASH FLOW STATEMENT**

	Note	Year to 31 July 2004 £'000	Year to 31 July 2003 £'000
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	25	9,296	5,954
<b>RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>			
Income from short term investments		525	326
Interest Paid		(1,834)	(2,065)
HEFCE reimbursement of interest paid		285	355
<b>NET CASH OUTFLOW FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE</b>		(1,024)	(1,384)
<b>CAPITAL EXPENDITURE</b>			
Payments to acquire tangible fixed assets		(2,848)	(2,112)
Receipts from sales of tangible fixed assets		4	119
Deferred capital grants received		1,820	846
HEFCE reimbursement of principal repayments		330	387
<b>NET CASH OUTFLOW FROM CAPITAL EXPENDITURE</b>		(694)	(760)
TAXATION		(6)	(2)
<b>NET CASH INFLOW AFTER TAXATION, BUT BEFORE FINANCING</b>		7,572	3,808
<b>FINANCING</b>			
New loans acquired	26	0	0
Repayment of loans	26	(1,560)	(1,556)
Capital element of finance lease repayments	26	(17)	(69)
<b>NET CASH OUTFLOW FROM FINANCING</b>		(1,577)	(1,625)
<b>INCREASE IN CASH FOR THE YEAR</b>	27,28	<b>5,995</b>	<b>2,183</b>

**CONSOLIDATED CASH FLOW STATEMENT - continued**

**RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT (NOTE 29)**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
Increase in cash in year	5,995	2,183
Repayment of debt	1,577	1,625
	<hr/>	<hr/>
Movement arising from cash flows	7,572	3,808
	<hr/>	<hr/>
<b>CHANGE IN NET DEBT</b>	<b>7,572</b>	<b>3,808</b>
<b>NET DEBT AT 1 AUGUST 2003</b>	<b>(17,908)</b>	<b>(21,716)</b>
	<hr/>	<hr/>
<b>NET DEBT AT 31 JULY 2004</b>	<b>(10,336)</b>	<b>(17,908)</b>
	<hr/>	<hr/>

**STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
Surplus/(Deficit) for the year	620	(601)
Endowment income received	-	-
Reimbursement of inherited debt	330	387
Prior year adjustment to enhanced pension provision	-	(2,368)
<b>TOTAL GAINS/(LOSSES) RECOGNISED SINCE LAST ANNUAL REPORT</b>	<b>950</b>	<b>(2,582)</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 as it is a separately managed organisation. The audited financial statements of the Union of Students are shown in summary form in note 33 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 (general)	33.3% per annum
Computer Equipment (servers)	20% 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**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
<b>1. FUNDING COUNCIL GRANTS</b>		
Recurrent Grant		
HEFCE	40,922	38,958
LSC	23	127
TTA	93	161
Research and Selective Initiatives	3,203	2,104
HEFCE Reimbursement of Inherited Liabilities	281	351
Release of Capital Grants		
Buildings	221	187
Equipment	1,018	803
	<b>45,761</b>	<b>42,691</b>
<b>2. ACADEMIC FEES AND SUPPORT GRANTS</b>		
Full-Time Students -UK/EU	10,010	10,731
Full-Time Students - Overseas	3,038	2,488
Part-Time Fees	1,229	1,140
Education Contracts	4,567	4,479
Short Course Fees	778	859
	<b>19,622</b>	<b>19,697</b>
<b>3. RESEARCH GRANTS AND CONTRACTS</b>		
Research Councils	250	277
UK Based Charities	163	168
UK Industry and Commerce	695	492
UK Central Government/Health Authorities	1,442	535
Teaching Company Schemes	127	275
European Community Programmes	866	1,932
Other Research Grants and Contracts	1,209	786
	<b>4,752</b>	<b>4,465</b>
<b>4. OTHER OPERATING INCOME</b>		
Residences, Catering and Conferences	4,964	5,013
Consultancy/Self Financing Fees	3,296	3,101
Other Rents/Lettings	397	326
Other Income	1,662	1,750
	<b>10,319</b>	<b>10,190</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
<b>5. ENDOWMENT INCOME AND INTEREST RECEIVABLE</b>		
Investment Income	524	325
Endowment Income	1	1
	<b>525</b>	<b>326</b>

	<b>Ordinary Activities £'000</b>	<b>Exceptional Costs £'000</b>	<b>31 July 2004 Total £'000</b>	<b>31 July 2003 Total £'000</b>
<b>6. STAFF</b>				
<b>Staff Costs</b>				
Wages	39,484		39,484	39,179
Social Security Costs	3,052		3,052	2,754
Other Pension Costs	4,655	413	5,068	5,326
Redundancy/Managed Severance Scheme		811	811	1,134
	<b>47,191</b>	<b>1,224</b>	<b>48,415</b>	<b>48,393</b>

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
<b>Emoluments of the Vice-Chancellor</b>		
Salary costs	135	130
Benefits in kind	2	2
Employers Pension Contributions	17	15
	<b>154</b>	<b>147</b>

The salary and benefits 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 £16,777 (2003: £14,528)

	<b>2004 Number</b>	<b>2003 Number</b>
<b>Average Staff Numbers by Major Category</b>		
Management	51	40
Academic	588	582
Administrative, Professional, Technical and Clerical Staff	817	856
Manual Staff	185	210
	<b>1,641</b>	<b>1,688</b>
<b>Remuneration of other higher paid staff, excluding employer's pension contributions</b> £70,000 - £79,999	<b>3</b>	<b>2</b>

Higher paid staff numbers include two members of staff employed on a full-time basis with the University and one member, who is employed on a joint appointment arrangement.

**NOTES TO THE FINANCIAL STATEMENTS – continued**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 Restated £'000</b>
<b>7. OTHER OPERATING EXPENSES</b>		
Consumables	1,881	1,720
Equipment and Tools	3,155	3,610
Operating Leases	2,116	995
Books and Periodicals	983	857
Printing - External and Internal	537	432
Protective Clothing/Laundry/Uniforms	51	56
Repairs and General Maintenance	1,345	1,422
Heat, Light, Water and Power	1,178	1,273
Rent and Rates	496	558
Staff and Student Development	1,180	1,080
Travel and Subsistence	1,285	1,189
Student Union Contributions	488	475
Auditors' Remuneration (Corporation)	32	30
Auditors' Remuneration (Subsidiaries)	7	7
Auditors' Remuneration in Respect of Non-Audit Services	42	58
Irrecoverable VAT Input Tax	1,841	1,541
Payments to Franchise Colleges	3,697	3,512
Telephones and Postages	675	668
Insurance	437	434
Publicity and Prospectus	893	775
Examinations/Awards Day	224	178
Subscriptions	229	226
Vehicle Hire/Lease	107	178
Other Expenses	861	162
Professional Charges	322	735
Consultancy	1,076	246
Legal Charges	228	89
Payment to International Partners	96	651
Security	315	320
Movement in Provision for Bad/Doubtful Debts	157	240
	<b>25,934</b>	<b>23,717</b>

Payments in respect of leased student residential accommodation have been reclassified from "Rent and Rates" into "Operating Leases". A provision of £768,000 has been made in the 2003/04 accounts (2002/03: nil) under Financial Reporting Standard 12, "Provisions, Contingent Liabilities and Contingent Assets" in relation to three leased properties.

<b>8. INTEREST PAYABLE</b>		
Loan not wholly repayable within five years	1,853	2,044
Finance Leases	1	1
	<b>1,854</b>	<b>2,045</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**9. ANALYSIS OF EXPENDITURE BY ACTIVITY**

	<b>Staff Costs</b>	<b>Dep'n</b>	<b>Other Operating Expenses</b>	<b>Interest Payable</b>	<b>Total</b>
	£'000	£'000	£'000	£'000	£'000
Academic Departments	28,322	1,847	8,908		39,077
Academic Services	5,258	1,294	2,047		8,599
Research Grants & Contracts	2,263		2,363		4,626
Residences, Catering & Conferences	1,334	534	3,962	932	6,762
Premises	1,450	67	2,469		3,986
Administration	6,606	408	4,248		11,262
Other Expenses	1,958		1,937	922	4,817
<b>Total Income and Expenditure Account</b>	<b>47,191</b>	<b>4,150</b>	<b>25,934</b>	<b>1,854</b>	<b>79,129</b>

The depreciation has been funded by:	£'000
Deferred Capital Grants Released (note 20)	1,239
Transfer from Capital Reserve (note 22)	1,075
General Income	1,836
	<u>4,150</u>

**10. TANGIBLE FIXED ASSETS - Group**

	<b>Freehold Land and Buildings</b>	<b>Assets in Course of Construction</b>	<b>Computer Equipment</b>	<b>Leased Computer Equipment</b>	<b>Other Equipment And Fittings</b>	<b>Leased Equipment and Fittings</b>	<b>TOTAL</b>
	£'000	£'000	£'000	£'000	£'000	£'000	£'000

**COST OR VALUATION**

At 1 August 2003	112,350	0	9,844	351	5,322	808	<b>128,675</b>
Additions	1,314	1,055	172	0	307	0	<b>2,848</b>
Reclassifications	0	0	0	0	0	0	<b>0</b>
Disposals			(2,252)		(102)		<b>(2,354)</b>
At 31 July 2004	<u>113,664</u>	<u>1,055</u>	<u>7,764</u>	<u>351</u>	<u>5,527</u>	<u>808</u>	<b>129,169</b>

**DEPRECIATION**

At 1 August 2003	24,599	0	7,321	336	2,865	663	<b>35,784</b>
Elimination on disposals			(2,252)		(88)		<b>(2,340)</b>
Depreciation for year	2,195		1,234	11	628	82	<b>4,150</b>
At 31 July 2004	<u>26,794</u>	<u>0</u>	<u>6,303</u>	<u>347</u>	<u>3,405</u>	<u>745</u>	<b>37,594</b>
Net Book Value At 31 July 2004	<u>86,870</u>	<u>1,055</u>	<u>1,461</u>	<u>4</u>	<u>2,122</u>	<u>63</u>	<b>91,575</b>
Net Book Value At 31 July 2003	<u>87,705</u>	<u>46</u>	<u>2,523</u>	<u>15</u>	<u>2,457</u>	<u>145</u>	<b>92,891</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**10. TANGIBLE FIXED ASSETS - Corporation**

	<b>Freehold Land and Buildings</b> £'000	<b>Assets in Course of Construction</b> £'000	<b>Computer Equipment</b> £'000	<b>Leased Computer Equipment</b> £'000	<b>Other Equipment And Fittings</b> £'000	<b>Leased Equipment and Fittings</b> £'000	<b>TOTAL £'000</b>
<b>COST OR VALUATION</b>							
At 1 August 2003	102,315	0	9,808	351	5,103	808	<b>118,385</b>
Additions	1,314	1,055	172	0	301	0	<b>2,842</b>
Reclassifications							<b>0</b>
Disposals			(2,216)		(62)		<b>(2,278)</b>
At 31 July 2004	103,629	1,055	7,764	351	5,342	808	<b>118,949</b>
<b>DEPRECIATION</b>							
At 1 August 2003	22,690	0	7,285	336	2,728	663	<b>33,702</b>
Elimination on disposals			(2,216)		(48)		<b>(2,264)</b>
Depreciation for year	1,997		1,234	11	598	82	<b>3,922</b>
At 31 July 2004	24,687	0	6,303	347	3,278	745	<b>35,360</b>
Net Book Value At 31 July 2004	78,942	1,055	1,461	4	2,064	63	<b>83,589</b>
Net Book Value At 31 July 2003	79,579	46	2,523	15	2,375	145	<b>84,683</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**

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b>	<b>2003</b> <b>Restated</b>	<b>2004</b>	<b>2003</b> <b>Restated</b>
	£'000	£'000	£'000	£'000
Investments	33	33	33	33

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-subsiary 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 2004.

**12. ENDOWMENT ASSET INVESTMENTS**

	<b>GROUP AND CORPORATION</b>	
	<b>2004</b>	<b>2003</b> <b>Restated</b>
	£'000	£'000
Balance at 1 August 2003	104	107
Additions (Thornhill Bequest reclassification)	192	192
Interest Received	1	1
Prize Fund payments	(2)	(4)
<b>Balance at 31 July 2004</b>	<b>295</b>	<b>296</b>
<b>Represented by:</b>	<b>2004</b>	<b>2003</b>
	£'000	£'000
Thornhill Bequest	192	192
Fixed interest stocks	7	7
Bank balances	96	97
	<b>295</b>	<b>296</b>

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

The value of the Thornhill Bequest, a collection of medieval Chinese pottery owned by the University, is included as an endowment investment. This was previously shown as a fixed asset investment in 2002/03. 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.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**13. STOCK**

**GROUP AND CORPORATION**

	<b>2004</b> £'000	<b>2003</b> £'000
Raw materials and consumables	<b>160</b>	<b>144</b>

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

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b> £'000	<b>2003</b> £'000	<b>2004</b> £'000	<b>2003</b> £'000
Amounts owed by subsidiary undertaking		-	3,101	3,291
Amounts owed under joint arrangement with Tamworth and Lichfield College Phase 1	632	662	632	662
	<b>632</b>	<b>662</b>	<b>3,733</b>	<b>3,953</b>

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

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b> £'000	<b>2003</b> £'000	<b>2004</b> £'000	<b>2003</b> £'000
Trade debtors	2,418	1,977	2,395	1,939
Amounts owed by subsidiary undertakings	-	-	1,853	2,000
Other debtors	849	798	824	780
Prepayments and accrued income	1,853	2,909	1,853	2,908
	<b>5,120</b>	<b>5,684</b>	<b>6,925</b>	<b>7,627</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 £1,374,000 (2003: £1,215,000) 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:**

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b> £'000	<b>2003</b> £'000	<b>2004</b> £'000	<b>2003</b> £'000
Loans	1,648	1,597	1,838	1,787
Obligations under finance leases	5	17	5	17
Trade creditors	2,783	2,277	2,763	2,262
Amounts owed to subsidiary undertakings	-	-	183	263
Other taxation and social security	1,662	1,642	1,640	1,615
Other creditors	1,004	817	1,004	814
Accruals and deferred income	7,638	4,849	7,632	4,843
	<b>14,740</b>	<b>11,199</b>	<b>15,065</b>	<b>11,601</b>

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

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b> £'000	<b>2003</b> £'000	<b>2004</b> £'000	<b>2003</b> £'000
Bank loan account	17,330	18,169	17,330	18,169
Staffordshire County Council loan account	3,874	4,135	3,874	4,135
Building Society Mortgage	910	1,421	910	1,421
Obligations under finance leases	4	8	4	8
Tamworth & Lichfield College Phase 2	652	691	652	691
Amounts owed to subsidiary company	-	-	3,101	3,291
	<b>22,770</b>	<b>24,424</b>	<b>25,871</b>	<b>27,715</b>

**LOAN OBLIGATIONS**

	<b>GROUP</b>		<b>CORPORATION</b>	
	<b>2004</b> £'000	<b>2003</b> £'000	<b>2004</b> £'000	<b>2003</b> £'000
Between one and two years	1,980	1,649	2,170	1,839
Between two and five years	6,310	5,064	6,880	5,634
Over five years	13,824	17,012	16,165	19,543
	<b>22,114</b>	<b>23,725</b>	<b>25,215</b>	<b>27,016</b>
Within one year	1,648	1,597	1,838	1,787
	<b>23,762</b>	<b>25,322</b>	<b>27,053</b>	<b>28,803</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

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

<b>Original Loan £'000</b>	<b>Outstanding Balance at 31 July 2004 £'000</b>	<b>Interest Basis</b>	<b>Repayment Terms</b>	<b>Security</b>
3,000	1,961	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	1,308	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	2,346	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	3,139	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	733	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	1,319	5.8% fixed until October 2008	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 2004 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> £'000	<b>Onerous Contracts</b> £'000	<b>2004 Total</b> £'000	<b>2003 Total</b> £'000
At 1 August 2003	8,155	0	8,155	6,823
Utilised in the year	(548)	0	(548)	(524)
Charge to Income and Expenditure Acct	622	768	1,390	1,856
<b>At 31 July 2004</b>	<b>8,229</b>	<b>768</b>	<b>8,997</b>	<b>8,155</b>

**20. DEFERRED CAPITAL GRANTS**

**GROUP AND CORPORATION**

	<b>Buildings</b> £'000	<b>Equipment</b> £'000	<b>2004 Total</b> £'000	<b>2003 Total</b> £'000
At 1 August 2003	8,408	3,149	11,557	11,701
Add cash received	1,266	554	1,820	846
Released to Income and Expenditure	(221)	(1,018)	(1,239)	(990)
<b>At 31 July 2004</b>	<b>9,453</b>	<b>2,685</b>	<b>12,138</b>	<b>11,557</b>

**21. ENDOWMENTS RESERVE**

**GROUP AND CORPORATION**

	<b>2004 Specific</b> £'000	<b>2003 Restated Specific</b> £'000
At 1 August 2003	104	107
Thornhill Bequest reclassification	192	192
Net Income for year	(1)	(3)
<b>At 31 July 2004</b>	<b>295</b>	<b>296</b>

The Thornhill Bequest was previously classified under Revaluation Reserve.

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**22. CAPITAL RESERVE**

**GROUP AND CORPORATION**

	<b>2004</b> £'000	<b>2003</b> £'000
At 1 August 2003	43,969	44,657
Add HEFCE reimbursement of loan repayments	330	387
Less Release of capital reserve (note 9)	(1,075)	(1,075)
<b>At 31 July 2004</b>	<b>43,224</b>	<b>43,969</b>

**23. INCOME AND EXPENDITURE ACCOUNT**

	<b>2004</b> £'000	<b>2003</b> £'000
<b>GROUP</b>		
As at 1 August 2003	8,765	8,291
Surplus for the year	620	(601)
Transfer from capital reserve	1,075	1,075
<b>At 31 July 2004</b>	<b>10,460</b>	<b>8,765</b>
<b>CORPORATION</b>		
At 1 August 2003	2,049	1,393
Surplus for the year	789	(419)
Transfer from capital reserve	1,075	1,075
<b>At 31 July 2004</b>	<b>3,913</b>	<b>2,049</b>

**NOTES TO THE FINANCIAL STATEMENTS - continued**

**24. LEASE OBLIGATIONS**

**GROUP AND CORPORATION**

	<b>2004</b> £'000	<b>2003</b> £'000
Obligations under finance leases fall due as follows:		
Within one year	5	18
Between one and two years	4	8
Between two and five years	-	-
	<b>9</b>	<b>26</b>

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

	<b>2004</b> £'000	<b>2003</b> £'000
Within one year	206	215
Between two and five years	364	314
	<b>570</b>	<b>529</b>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**

**25. NET CASH FLOW FROM OPERATING ACTIVITIES**

	<b>Year to 31 July 2004 £'000</b>	<b>Year to 31 July 2003 £'000</b>
Surplus/(Deficit) for the year before taxation and transfers from reserves	626	(598)
Interest Receivable	(525)	(326)
HEFCE Reimbursement Receivable	(281)	(351)
	<u>(180)</u>	<u>(1,275)</u>
Add back interest payable	1,854	2,045
Surplus from operating activities	1,674	770
Release of capital grant	(1,239)	(990)
Depreciation	4,150	3,812
Loss on sale of fixed assets	10	16
(Increase)/Decrease in stock	(16)	1
(Increase)/Decrease in debtors	431	(1,865)
Increase in creditors	3,444	2,879
Increase in provisions	842	1,331
<b>NET CASH INFLOW FROM OPERATING ACTIVITIES</b>	<b><u>9,296</u></b>	<b><u>5,954</u></b>

**26. 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 2003	1,883	4,470	26	18,969
Cash outflows from financing	<u>(466)</u>	<u>(330)</u>	<u>(17)</u>	<u>(764)</u>
<b>Balance at 31 July 2004</b>	<b><u>1,417</u></b>	<b><u>4,140</u></b>	<b><u>9</u></b>	<b><u>18,205</u></b>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued**

**27. ANALYSIS OF CHANGES IN CASH AND CASH EQUIVALENTS DURING THE YEAR**

	£'000
Balance at 1 August 2003	7,440
Net cash inflow	5,995
	<hr/>
<b>Balance at 31 July 2004</b>	<b>13,435</b>
	<hr/>

**28. ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS**

	2004 £'000	2003 £'000	2004 Change in Year £'000	2003 £'000	2002 £'000	2003 Change In Year £'000
<b>Cash at bank and in hand</b>	<b>13,435</b>	<b>7,440</b>	<b>5,995</b>	<b>7,440</b>	<b>5,257</b>	<b>2,183</b>

**29. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT**

	Year Ended 31 July 2004 £'000	Year Ended 31 July 2003 £'000
Increase in cash in year	5,995	2,183
Repayment of debt	1,577	1,625
New loans	0	0
Movement arising from cash flows	7,572	3,808
New finance lease	0	0
	<hr/>	<hr/>
<b>CHANGE IN NET DEBT</b>	<b>7,572</b>	<b>3,808</b>
	<hr/>	<hr/>
<b>NET DEBT AT 1 AUGUST 2003</b>	<b>(17,908)</b>	<b>(21,716)</b>
	<hr/>	<hr/>
<b>NET DEBT AT 31 JULY 2004</b>	<b>(10,336)</b>	<b>(17,908)</b>

**NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT - continued**

**ANALYSIS OF CHANGES IN NET DEBT**

	<b>August 2003</b> £'000	<b>Cash Flows 2004</b> £'000	<b>Other Movements</b> £'000	<b>July 2004</b> £'000
Cash in hand, at bank	7,440	5,995		13,435
Debt due within 1 year	(1,597)	1,597	(1,648)	(1,648)
Debt due after 1 year	(23,725)	(37)	1,648	(22,114)
Finance Leases	(26)	17		(9)
	<b>(17,908)</b>	<b>7,572</b>	<b>0</b>	<b>(10,336)</b>

**30. CAPITAL COMMITMENTS**

**GROUP AND CORPORATION**

	<b>2004</b> £'000	<b>2003</b> £'000
<b>Contracted for</b>	<b>2,220</b>	<b>0</b>

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**31. 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.

**32. 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 2004 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 2004;
- Actual fund returns up to 30 June 2004; 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 2004 by a qualified independent actuary.

	<b>At 31 July 2004</b>	<b>At 31 July 2003</b>
Inflation	2.9%	2.6%
Rate of increase in salaries	4.4%	4.1%
Rate of increase for pensions	2.9%	2.6%
Discount rate for liabilities	5.8%	5.5%

**NOTES TO THE FINANCIAL STATEMENTS – continued**

The assets in the scheme (of which the Group's share is estimated at 2.91%) and the expected rates of return were:

	<b>Long-term rate of return expected at 31 July 2004</b>	<b>Value at 31 July 2004 £'000</b>	<b>Long-term rate of return expected at 31 July 2003</b>	<b>Value at 31 July 2003 £'000</b>
Equities	7.9%	1,072,000	8.0%	1,021,300
Bonds	5.4%	192,000	5.0%	191,100
Property	6.7%	142,000	6.0%	132,200
Cash	4.5%	55,000	3.5%	9,300
<b>Total Market Value of Assets</b>		<b>1,461,000</b>		<b>1,353,900</b>

	<b>Year Ended 31 July 2004 £'000</b>	<b>Year Ended 31 July 2003 £'000</b>
Group's estimated asset share	42,444	37,500
Present value of scheme liabilities	(71,617)	(65,160)
<b>Deficit in the scheme</b>	<b>(29,173)</b>	<b>(27,660)</b>

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 2004 £'000</b>	<b>Year Ended 31 July 2003 £'000</b>
Net assets as per Balance Sheet	66,117	64,587
Provision for pension enhancements	8,229	8,155
Pension Scheme prepayment	(1,374)	(1,215)
<b>Net assets excluding FRS17 liability</b>	<b>72,972</b>	<b>71,527</b>
Net pension liability	(29,173)	(27,660)
<b>Net assets including FRS17 pensions liability</b>	<b>43,799</b>	<b>43,867</b>

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**Reserves Note**

	<b>Year Ended 31 July 2004 £'000</b>	<b>Year Ended 31 July 2003 £'000</b>
Income and expenditure account excluding FRS 17 pension liability	17,315	15,705
Pension Reserve	(29,173)	(27,660)
	(11,858)	(18,895)

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 2004 £'000</b>	<b>Year Ended 31 July 2003 £'000</b>
Service cost	2,440	1,840
Past service cost	149	0
Cutailment and Settlements	8	0
	2,597	1,840

**Analysis of net return on pension return**

	<b>Year Ended 31 July 2004 £'000</b>	<b>Year Ended 31 July 2003 £'000</b>
Expected return on pension scheme assets	2,835	2,590
Interest on pension liabilities	(3,641)	(2,440)
	(806)	150

**NOTES TO THE FINANCIAL STATEMENTS – continued**

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

	<b>Year Ended 31 July 2004</b> £'000	<b>Year Ended 31 July 2003</b> £'000
Actual return less expected return on pension scheme assets	464	(770)
Experience gains and losses arising on the scheme liabilities	(907)	(2,889)
Changes in financial and demographic assumptions underlying the present value of liabilities	(91)	(7,680)
Actuarial loss recognised in STRGL	(534)	(11,339)

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

	<b>Year Ended 31 July 2004</b> £'000	<b>Year Ended 31 July 2003</b> £'000
Deficit in scheme at 1 August	(27,660)	(16,391)
Movement in year:		
Current service charge	(2,440)	(1,840)
Contributions	1,888	1,760
Contributions in respect of unfunded benefits	536	0
Past service costs	(149)	0
Impact of Settlements and Curtailments	(8)	0
Net interest/return on assets	(806)	150
Actuarial gain or loss	(534)	(11,339)
<b>Deficit in scheme at 31 July</b>	<b>(29,173)</b>	<b>(27,660)</b>

**History of experience gains and losses**

	<b>Year Ended 31 July 2004</b>	<b>Year Ended 31 July 2003</b>
Difference between the expected and actual return on assets	464	(770)
% of scheme assets	1.1%	2.1%
Experience gains and losses on scheme liabilities	(907)	(2,889)
% of scheme liabilities	1.3%	4.4%
Total amount recognised in STRGL	(534)	(11,339)
% of scheme liabilities	0.7%	17.4%

**NOTES TO THE FINANCIAL STATEMENTS – continued**

**Employers and Employees Total Contributions**

	<b>Year Ended 31 July 2004</b> £'000	<b>Year Ended 31 July 2003</b> £'000
Contributions to TPS	4,087	3,366
Contributions to LGPS	2,851	2,716

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	1,865
Variations from regular cost based on a constant percentage of current and estimated future earnings over the average service lives of current employees	433
	<u>2,298</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 £5,068,239 (2003: £5,325,446). 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 £8,228,451 (2003: £8,155,620) 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**

**33. 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 2004 are summarised below.

Results for the year are:

	<b>2004</b>	<b>2003</b>
	£'000	£'000
<b>INCOME</b>	<b>866</b>	<b>925</b>
<b>EXPENDITURE</b>		
Administration Expenses	301	277
Communication	37	56
Education	2	1
Finance	79	75
Information Technology	10	13
Student Activity	222	201
Personnel/Welfare	62	80
Representation	133	144
	<b>846</b>	<b>847</b>
<b>Surplus for the Year</b>	<b>20</b>	<b>78</b>

**SUMMARY BALANCE SHEET**

	<b>2004</b>	<b>2003</b>
	£'000	£'000
Fixed Assets	195	180
Net Current Assets	459	453
<b>Total Net Assets</b>	<b>654</b>	<b>633</b>

**34. ACCESS FUNDS**

	<b>Year to 31 July 2004</b>	<b>Year to 31 July 2003</b>
	£'000	£'000
Funding Council Grants	886	1,037
Interest Earned	8	4
	<b>894</b>	<b>1,041</b>
Disbursements to Students	(866)	(1,031)
<b>Balance Unspent 31 July 2004</b>	<b>28</b>	<b>10</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.

**35. RELATED PARTY TRANSACTIONS**

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest.

All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's Financial Regulations and Standing Orders Relating to Contracts and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 Related Party Disclosures.