



Financial Statements

FOR THE YEAR ENDED 31 JULY 2005



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REPORT OF THE TREASURER

During the year the University moved significantly towards the achievement of its strategic goal of being an internationally recognised leading research-intensive university. This goal, one fully in keeping with the University's pursuit of excellence, has required strong leadership and resolve. The staff, students and Council have shown the necessary strength of purpose this year to bring the attainment of this goal within reach.

The University's reported consolidated result is a deficit of £12.7 million. Of this, some £10 million is exceptional and explained in detail in note 9 to these statements under the categories:

1. Fundamental restructuring costs £6.8 million, and
2. Deficit on disposal of land and buildings £3.2 million.

The first of these is principally the voluntary severance and early retirement costs of staff following the decision to cease or reform unsustainable activities whilst the second is largely the impairment of assets, particularly with respect to student residences.

The decisions to take these steps were painful but the result of exhaustive consultation which confirmed them and their cost as unavoidable if the University was to succeed in an increasingly demanding and competitive international market place. Staff in many schools at the University have risen to the challenge of change and undertaken significant refocusing activities in the year. I wish to applaud their strategic vision.

Having prepared its accounts on the footing that its fixed assets are revalued every five years, the University then makes an adjustment to express the results on the accounting principles which HEFCE uses to judge performance. These require fixed assets to be carried at cost with a consequent, often substantial, amendment to the charge for depreciation. This year, that adjustment reduces the exceptional items to £6.2 million and discloses a deficit for the year of £6.6 million.

Then, the underlying result of the University is similar to last year with a deficit of £0.4 million. The management of the University recognises that an operating result such as this cannot be sustained and have taken steps to remedy it. The task now is to build on these beginnings to generate funds for investment in research, teaching and the student experience.

It is easy to focus on these headline numbers in the table below, but I would like to take the opportunity to look at some of the underlying changes from last year:

- HEFCE income, excluding the release of deferred capital grants, has grown by 9% in the year, largely as a result of the growth of the University's campus in Cornwall. The University's presence there is growing; phase two is about to begin and phase three is in the planning. Our Cornwall campus is set to make an important contribution to the ambition both of this University and to the educational profile of Cornwall.

RESULTS FOR THE YEAR - INCOME AND EXPENDITURE ACCOUNT

The summarised consolidated results on an historical cost basis for the year to 31 July 2005 are as follows:

	2004/05	2003/04	2002/03
	£m	£m	£m
Income	128.9	115.6	105.9
Expenditure	(129.2)	(115.9)	(101.9)
Share of operating loss in joint venture	(0.1)	—	—
	<u>(0.4)</u>	<u>(0.3)</u>	<u>4.0</u>
Exceptional item	(6.2)	(2.7)	—
Historical cost (deficit)/surplus for the year	<u>(6.6)</u>	<u>(3.0)</u>	<u>4.0</u>



REPORT OF THE TREASURER

- Tuition fees have grown by 11% partly as a result of the growth in Cornwall noted above but also due to successes in the international and postgraduate market.
- Research grants and contracts have also grown by 11% in the year with particularly significant growth in European Union and UK commercially funded activity.
- Other income has grown by 22% of which 7% relates to income generated at our Cornwall campus.

This income growth needs to be considered in the context of a University dealing with a considerable and exacting refocusing exercise and the fact that income grew by 9% in the year to 31 July 2004 as well. This is an achievement of which to be proud and a sound footing on which to base the University's future.

As the operating result of the University is largely unchanged from last year it is clear that our expenditure has also grown by 11%. Significant areas of growth include:

- Pension costs (which are included in staff costs). The University adopted a new pension financial reporting standard (FRS 17) last year and its impact has again been felt this year with an upward adjustment of £1.6 million in the past service costs of staff. This position will be much more easily compared with that of other universities next year when they too will adopt this standard. Another increase is extra staff cost required at the Peninsula Medical School, our growing joint venture with the University of Plymouth.
- Other operating expenses have increased by 10%. A significant proportion of this relates to the University's share of the operating cost of the Cornwall campus in its first year of operation. The balance of the increase is predominantly due to extra investment in the maintenance backlog at the University's Streatham and St Lukes campus.
- Interest payable has risen by £1.7 million as the University's borrowing position has increased from approaching £30 million two years ago to a sum in excess of £60 million this year, largely as a result of recent new build on student residences and at Cornwall.

Whilst the year has been difficult the University has continued to invest. This has included improvements in

teaching and learning spaces, research facilities, additional sports resources and excellent new residential rooms for students (all double rooms with ensuite facilities). The largest investment has seen the conclusion of phase one of the University's Cornwall campus; the final sum of £6.8 million of a £27.4 million scheme was incurred in the year.

It is pleasing to note that the University has maintained a positive cash flow of £2.1 million at the operating level in the year. This is a reduction on the operating cash flow earnings from last year of £3.9 million, but considering the exceptional refocusing costs of £6.8 million, is still a very creditable performance. Major contributing factors to this performance are the elimination of non-cash adjustments such as depreciation and the deficits arising on the demolition of assets but it should be noted that some £2.3 million arises from solid working capital management.

The financial performance disclosed by these statements shows what a difficult year it has been. They record a year in which the direction of the University has been led through fundamental change to achieve its ambition of becoming an internationally recognised leading research-intensive university for the benefit of its staff and students and the wider community in which it exists.

The staff and students in every corner of the University's structure have played their part in this process, whether by conceiving and managing it or by supporting others in their endeavours. They are all to be commended.

The University has set itself the target of an historical cost breakeven position in 2005/06 and to generate the surpluses necessary to deliver its strategic plans. It knows where it needs to go and it has developed the controls to get there. It is neither complacent nor troubled about the future. It deserves to succeed.

I wish to end my report by noting the University's and my thanks to a tireless servant of the University, Mr Keith Blanshard, who retired this year after 11 years as Director of Finance and 16 years at the University. I would like to extend my best wishes to Keith and his family and join his colleagues in wishing him a long and happy retirement.

G A STURTRIDGE
TREASURER

December 2005



CORPORATE GOVERNANCE STATEMENT

INTRODUCTION

The following statement is provided to enable readers of the Financial Statements of the University to obtain a better understanding of the governance and legal structure of the University.

PRINCIPLES OF OPERATION

The University conducts its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities which has been provided by the Committee of University Chairmen in its *Guide for Members of Higher Education Governing Bodies in the UK*.

LEGAL STATUS OF THE UNIVERSITY

The University is an independent corporation, whose legal status derives from a Royal Charter granted in 1955. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes, and approved by the Privy Council.

MANAGEMENT

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** - is the supreme governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. The approval by Council of any changes to the Charter and Statutes is required before they can be submitted to the Privy Council.

It has a majority of members from outside the University (described as lay members), from whom its Chair must be drawn. Also included in its members are representatives of the staff of the University and the

student body. None of the lay members receives payment, apart from the reimbursement of expenses, for the work that the member does for the University.

- **The Senate** - is the academic authority of the University and draws its membership from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.
- **The Court** - is a large, mainly formal body which offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court normally meets once a year to receive the Annual Report and Accounts of the University and has the right to advise Senate and Council.

A majority of the members of the Court will be from outside the University, representing the local community and other designated bodies with an interest in the work of the University. The membership also includes representatives of the staff of the University (both academic and non-academic), the student body, former students and benefactors.

In addition to the above three bodies, Council has an Audit Committee which the University is required to maintain in accordance with its Financial Memorandum with the Higher Education Funding Council for England (HEFCE) in order to ensure that it is fulfilling its responsibilities for proper financial management, effective internal control, risk management and value for money.

- **The Audit Committee** - is a Committee of Council which considers detailed reports from the University's Auditors that include recommendations for the improvement of the institution's systems of internal control, together with management responses and implementation plans. The Committee also receives and considers reports from the HEFCE as they affect the University's business and monitors adherence to regulatory requirements.



CORPORATE GOVERNANCE STATEMENT

The Audit Committee meets four times a year (five in 2004/05) with the University's senior officers and the External and Internal Auditors in attendance. At least once a year the Committee meets the Auditors without the University officers present. The Committee consists of members with no executive responsibility for the management of the University.

VICE-CHANCELLOR

The principal academic and administrative officer of the University is the Vice-Chancellor who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

As Chief Executive of the University, the Vice-Chancellor exercises considerable influence on the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Deputy Vice-Chancellors and the senior administrative officers all contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Vice-Chancellor.

UNIVERSITY COMMITTEES

Although the Council meets at least four times each academic year, much of its detailed work is initially handled by committees, in particular the Strategy, Performance and Resources Committee and the Audit Committee. The decisions of these Committees are formally reported to the Council.

These Committees, and in some cases others, are formally constituted as committees of the Council with written terms of reference and specified membership, including a significant proportion of lay members from whom the Chair will be selected (with the exception of the Strategy, Performance

and Resources Committee that is chaired by the Vice-Chancellor).

In respect of its strategic and development responsibilities Council receives recommendations and advice from the Strategy, Performance and Resources Committee, which recommends to Council the University's annual revenue budget and monitors performance in relation to the approved budget.

STATEMENT OF INTERNAL CONTROL

As the governing body of the University of Exeter Council has 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 Council in the Charter and Statutes 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 principal 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 July 2005 and up to the date of approval of the financial statements.

Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- a) Council meets at regular intervals (four times a year) to consider the plans and strategic direction of the institution.
- b) Council receives periodic reports from the Chairman of Audit Committee concerning internal control, and requires (through the Risk Steering Group) regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects.



CORPORATE GOVERNANCE STATEMENT

- c) The University has established the Performance and Risk Steering Group to manage the development of risk management at Exeter and the Audit Committee oversees the work undertaken through the consideration of regular reports and an annual meeting with representatives of the Group.
- d) The Audit Committee receives regular reports from the internal audit, which includes an independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.
- e) A regular programme of facilitated workshops is held to identify and keep up to date the record of risks facing the organisation (the programme was initially targeted at the University's Senior Management Group but is now being made available to others across the University).
- f) A programme of risk awareness training is under way.
- g) A system of key performance and risk indicators has been developed.
- h) A robust risk prioritisation methodology based on risk ranking has been developed.
- i) An organisation-wide risk register is now maintained.
- j) Reports are received from budget holders, department heads and project managers on internal control activities.

The review of the effectiveness of the system of internal control is informed by the internal audit team contracted to Exeter, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Services in May 2000. The internal auditors submit regular reports, which include the head of internal audit's independent opinion on the adequacy and effectiveness of the University's system of internal control, with recommendations for improvement.

The review of the effectiveness of the system of internal control is also informed by the work of 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.

REGISTER OF INTERESTS

The University maintains a Register of Interests of members of the Council, which may be consulted by arrangement with the Registrar and Secretary.

FURTHER INFORMATION

The Statutes of the University specify that the Registrar and Secretary should act as Secretary of the Council to whom any enquiries about the constitution and governance of the University should be addressed.



RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

In accordance with the Royal Charter of Incorporation and Statutes of the University of Exeter, and subject to the advice of the University Court, the Council of the University is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

Working through its Strategy, Performance and Resources and Audit Committees Council is responsible for the proper maintenance of accounting records which disclose with reasonable accuracy at any time the financial position of the University and the Group and which enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation and Statutes, the Statement of Recommended Practice on Accounting in Higher Education Institutions (SORP) and other relevant accounting and financial reporting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder (the Vice-Chancellor), 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 Council has ensured through its senior officers and the Strategy, Performance and Resources and Audit Committees that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting and financial reporting 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; and
- the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps through its senior officers and Audit Committee to:

- ensure that funds from the Higher Education Funding Council for England and the Teacher Training Agency are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and the funding agreement with the Agency and any other conditions which the Funding Council and the Agency 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 of the Group and to prevent and detect fraud and other irregularities;
- secure the economical, efficient and effective management of the University's resources and expenditure; and
- ensure that the key principles of effective risk management have been applied in line with the requirements of HEFCE's Accounts Direction.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic schools and administrative departments;
- experienced and suitably qualified staff who take responsibility for the finance and control functions within the University and its subsidiary companies;
- a comprehensive medium and short term planning process supplemented by detailed annual income, expenditure and capital budgets and cash flow forecasts;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outcomes;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to detailed appraisal;
- Financial Regulations supplemented by a comprehensive Financial Handbook, detailing financial controls and procedures, which is updated on an annual basis;
- a professional Internal Audit team whose annual



RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY

programme is approved by the Audit Committee and endorsed by Council and whose head provides Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control; and

- a formalised treasury management policy.

Council's review of the effectiveness of the system of internal financial control is informed by the work of the internal auditors, the Audit Committee (which oversees the work of the internal audit service), the individual members of staff within the University who have responsibility for the development and maintenance of the financial control framework and comments made by the External Auditors in the management letter and in other reports. The University currently contracts out the internal audit function to Deloitte and Touche. They were the service provider during the year to 31 July 2005 and are providing the service during the forthcoming year also.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.



REPORT OF THE AUDITORS TO THE COUNCIL OF THE UNIVERSITY OF EXETER

We have audited the University's financial statements, which comprise the Consolidated Income and Expenditure Account, Note of Historical Cost Deficits, Statement of Consolidated Total Recognised Gains and Losses, Consolidated Balance Sheet, Balance Sheet, Consolidated Cash Flow Statement, Statement of Principal Accounting Policies and related notes 1 to 37. The financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the Council of the University of Exeter, as a body, in accordance with United Kingdom law and with the University's Charter of Incorporation. Our audit work has been undertaken so that we might state to the Council of the University of Exeter those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council of the University of Exeter as a body for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE COUNCIL AND AUDITORS

As described in the statement Responsibilities of the Council of the University, the University's Council is responsible for ensuring that financial statements are prepared in accordance with United Kingdom law and accounting standards. It is our responsibility to form an independent opinion based on our audit, on the financial statements and to report our opinion to you. Our responsibilities as independent auditors are established in the United Kingdom by statute, the Auditing Practices Board and by our professions ethical guidance.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 Council 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 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 University and the group at 31 July 2005, and of the University's and group income and expenditure, and group cash flows for the year then ended, and have been properly prepared in accordance with the 'Statement of Recommended Practice on Accounting in Further and Higher Education Institutions', and with the University's Charter of Incorporation;
- ii) income from the Higher Education Funding Council for England and Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received;
- iii) income has been applied in accordance with the University's Statutes, and where appropriate, with the Financial Memorandum dated 1 October 2003 of the Higher Education Funding Council for England.

ERNST AND YOUNG LLP
REGISTERED AUDITOR

19 December 2005

Broadwalk House
Southernhay West
Exeter EX1 1LF

ELECTRONIC DISSEMINATION OF REPORTS

- (a) The maintenance and integrity of the University of Exeter website is the responsibility of the Council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

UNIVERSITY OF EXETER
 CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
 — for the year ended 31 July 2005

	Note	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
INCOME			
Funding council grants	1	48,848	44,242
Tuition fees and education contracts	2	27,795	25,147
Research grants and contracts	3	15,293	13,808
Other income (including share of joint venture)	4	38,318	31,532
Endowment and investment income	5	1,044	907
Total income		<u>131,298</u>	<u>115,636</u>
Less: Share of income from joint venture	13	(2,331)	(66)
Net Income		<u>128,967</u>	<u>115,570</u>
EXPENDITURE			
Staff costs, including exceptional item	6	77,711	71,583
Other operating expenses	7	43,153	39,207
Depreciation	7	6,904	5,640
Interest payable	8	3,333	1,589
Other financial expenditure	30	400	—
Total expenditure		<u>131,501</u>	<u>118,019</u>
Operating deficit		(2,534)	(2,449)
Share of operating loss in joint venture	13	(150)	—
Total operating deficit		<u>(2,684)</u>	<u>(2,449)</u>
Exceptional items			
Fundamental restructuring costs	9	(6,775)	—
Deficit on disposal of land and buildings	9	(3,219)	—
Charge arising on re-financing	9	—	(2,654)
Deficit for the year	10	<u>(12,678)</u>	<u>(5,103)</u>
The income and expenditure account is in respect of continuing activities.			
NOTE OF HISTORICAL COST DEFICITS			
Deficit for the year		(12,678)	(5,103)
Difference between historical cost depreciation and the actual charge for the year calculated on the re-valued amount	22	2,307	2,175
Release of previous years property revaluation surpluses on current year disposals	22	3,818	—
Historical cost deficit for the year		<u>(6,553)</u>	<u>(2,928)</u>

UNIVERSITY OF EXETER
 STATEMENT OF CONSOLIDATED TOTAL RECOGNISED
 GAINS AND LOSSES — for the year ended 31 July 2005

	Note	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Deficit on continuing operations		(12,678)	(5,103)
Appreciation of endowment asset investments	21	2,961	892
New endowments	21	18	10
Endowment income (dispersed) for the year	21	(13)	(38)
Endowment capital (dispersed) in the year	21	—	(51)
Revaluation surplus on fixed asset investments	22	328	1,396
Revaluation surplus on tangible fixed assets held in joint venture	22	225	—
Actuarial loss on pension scheme	30	(100)	(1,200)
		<hr/>	<hr/>
Total recognised losses in the year		(9,259)	(4,094)
		<hr/>	<hr/>
Reconciliation			
		Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Opening reserves and endowments		131,671	135,765
Total recognised losses for the year		(9,259)	(4,094)
		<hr/>	<hr/>
Closing reserves and endowments		122,412	131,671
		<hr/>	<hr/>



UNIVERSITY OF EXETER
BALANCE SHEETS AS AT 31 JULY 2005

	Note	Group		University	
		2005 £'000	2004 £'000	2005 £'000	2004 £'000
Fixed assets					
Tangible assets	11	230,374	222,450	230,338	222,464
Investments	12	5,299	4,961	7,359	18,421
Investment assets – Joint ventures	13				
Share of gross assets		11,936	11,304	—	—
Share of gross liabilities		(11,861)	(11,304)	—	—
		<u>235,748</u>	<u>227,411</u>	<u>237,697</u>	<u>240,885</u>
Endowment assets	14	13,551	10,585	13,551	10,585
Current assets					
Stock		669	867	668	867
Debtors	15	13,609	16,158	15,777	18,255
Investments		—	2,000	—	2,000
Restricted cash at bank	16	3,700	—	3,700	—
Cash at bank and in hand		17,706	8,865	17,355	8,792
		<u>35,684</u>	<u>27,890</u>	<u>37,500</u>	<u>29,914</u>
Creditors: amounts falling due within one year	17	(29,019)	(27,354)	(29,536)	(27,850)
Net current assets		<u>6,665</u>	<u>536</u>	<u>7,964</u>	<u>2,064</u>
Total assets less current liabilities		<u>255,964</u>	<u>238,532</u>	<u>259,212</u>	<u>253,534</u>
Creditors: amounts falling due after more than one year	18	(62,626)	(47,482)	(65,932)	(62,468)
Net assets excluding pension liability		<u>193,338</u>	<u>191,050</u>	<u>193,280</u>	<u>191,066</u>
Pension liability	30	(13,100)	(11,300)	(13,100)	(11,300)
		<u>180,238</u>	<u>179,750</u>	<u>180,180</u>	<u>179,766</u>
Deferred capital grants	20	57,826	48,078	57,826	48,078
Specific endowments	21	13,551	10,585	13,551	10,585
Reserves					
Revaluation reserve	22	93,271	98,843	93,058	98,843
Income and expenditure reserve	23	15,590	22,244	15,745	22,260
Total reserves		<u>108,861</u>	<u>121,087</u>	<u>108,803</u>	<u>121,103</u>
TOTAL		<u>180,238</u>	<u>179,750</u>	<u>180,180</u>	<u>179,766</u>

The financial statements on pages 9 to 48 were approved by the Council on 19 December 2005 and signed on its behalf by:

G A Sturtridge - Treasurer

Professor S Smith - Vice-Chancellor

J C Lindley - Director of Finance

19 December 2005

UNIVERSITY OF EXETER
 CONSOLIDATED CASH FLOW STATEMENT
 — for the year ended 31 July 2005

	Note	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
CASH INFLOW FROM OPERATING ACTIVITIES	24	2,164	3,919
Returns on investments and servicing of finance	25	(1,011)	(33)
Taxation		—	—
Capital expenditure and financial investment	26	(10,731)	(19,503)
Management of liquid resources	27	2,000	(2,000)
Financing	28	13,179	17,409
Increase/(Decrease) in cash in the year	29	<u>5,601</u>	<u>(208)</u>

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

		2005 £'000	2004 £'000
Increase/(Decrease) in cash in the year	29	5,601	(208)
Cash (inflow) from new secured loans	28	(14,905)	(38,535)
Cash outflow from repayment of loans	28	1,726	21,126
Other movements from creditors due in more than one year	29	(1,274)	(721)
FRS 17 – Pension Liability	29	(1,800)	(1,500)
Cash (inflow)/outflow from liquid resources	27	<u>(2,000)</u>	<u>2,000</u>
Movement in net debt in the year		(12,652)	(17,838)
Net Debt at 1 August		<u>(50,094)</u>	<u>(32,256)</u>
Net Debt at 31 July	29	<u>(62,746)</u>	<u>(50,094)</u>

UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES



1. GENERAL POLICIES

a) Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education (2003) and in accordance with applicable accounting standards.

They conform to guidance published by the Higher Education Funding Council for England. The accounts have therefore been prepared on a going concern basis.

b) Basis of accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets and investments. The accounting policies applied are consistent with the previous year.

c) Basis of consolidation

The consolidated financial statements include the University of Exeter and its wholly owned subsidiary companies, Dartvale Limited, Exeter Development Capital Limited and Exeter Enterprises Limited. This is the first year that Exeter Enterprises Limited has been consolidated and the 2003/04 comparatives have not been amended to include this consolidation. Intra-group sales and profits are eliminated fully on consolidation. The financial statements of Innovation Exeter Limited have not been consolidated on the grounds of materiality. In accordance with FRS 2, the activities of the University of Exeter Students' Guild and the accounts of The Exeter University Foundation, a registered charity, have not been consolidated on the grounds that the University does not operate dominant influence over those activities. The aggregate amount of the respective share of capital and reserves of The University of Exeter Students' Guild and Innovation Exeter Limited as at 31 July 2005, and their profit or loss for the year ended on that date, are as follows:

	The University of Exeter Students' Guild £	Innovation Exeter Limited £
Share capital and reserves	226,000	1
(Loss)/Profit	(12,000)	—

The University of Exeter Foundation is a development trust established to raise funds for the benefit of the University with its own charity registration. During the year ended 31 July 2005 it made charitable disbursements to the University of £1.1m (2004: £3.3m) and had funds totalling £4.7m at that date (2004: £4.4m).

The 50% holding in Tremough Campus Services (TCS) represents an interest on a long-term basis, which is jointly controlled with University College Falmouth (UCF). As such the arrangement is treated as a joint venture and is accounted for using the gross equity method, such that 50% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 50% of its net income is reported in the University's consolidated income and expenditure account. TCS has entered into a gift aid arrangement to distribute surpluses arising on its activities equally to the University and UCF.

The Peninsula Medical School (PMS) is not a legal entity in its own right. It is a joint arrangement entered into by the University of Exeter and the University of Plymouth. A 50% share of the income, expenditure and balance sheet items of the "HE Community Chest" of the Peninsula Medical School is included within the income and expenditure account and balance sheet of each of the Universities.

d) Recognition of Income

Tuition fees represent all fees chargeable to students or their sponsors received and receivable attributable to the current accounting period. The costs of any fees waived by the University are included as expenditure and reported in note 7.

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contribution towards overhead costs. All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards



UNIVERSITY OF EXETER

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

overhead costs. The University holds no general endowment asset investments.

The recurrent grants from the funding bodies represent the funding allocations, which are attributable to the current financial year and are credited direct to the income and expenditure account.

Non-recurrent grants from the funding bodies or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

The University acts as an agent in the collection and payment of hardship funds and training bursaries from the funding bodies. Related receipts from the HEFCE and Teacher Training Agency and subsequent disbursement to students are excluded from the income and expenditure account and are shown separately in notes 33 to 36.

e) Taxation

No provision for taxation, deferred or otherwise, has been made in the University's accounts as it is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of Income and Corporation Taxes Act (ICTA) 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA 1988 or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

Except for its trading activities and certain consultancy, research activities and aspects of administration and central services, the University cannot recover Value Added Tax (VAT) suffered on its expenditure and this cost is included under the various related expenditure heads.

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

f) Foreign Currencies

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

g) Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, when it is probable that a transfer of economic benefit will occur, and this can be reliably estimated.

2. INCOME AND EXPENDITURE ACCOUNT

a) Pension Schemes and other post-retirement benefits

The two principal pension schemes for University staff are the national Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS). The schemes are defined benefit schemes, which are externally invested and contracted out of the State Second Pension. Both funds are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the respective trustees on the advice of the actuaries. In the intervening years, the respective actuaries review the progress of the schemes. Pension costs are assessed in accordance with the advice of the actuaries, based on the latest actuarial valuations of the schemes.

Following Financial Reporting Standard 17 - Retirement Benefits (FRS 17) the current service cost of providing retirement benefits to employees during the year is charged to the operating surplus or deficit in the year. The full cost of providing amendments to benefits in respect of past service is also charged to the operating surplus or deficit in the year. The expected return on the assets of the ERBS during the year based on the market value of scheme assets at the start of the financial year is included within other finance (charges)/income. This also includes a charge representing



UNIVERSITY OF EXETER STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

the expected increase in the liabilities of the scheme during the year, arising from the liabilities of the scheme being one year closer to payment. Differences between actual and expected returns on assets during the year are recognised in the statement of recognised gains and losses in the year, together with differences from changes in assumptions. The net deficit on the ERBS is reported on the balance sheet within the pension liability.

The University is unable to separately identify its share of the underlying assets and liabilities of the USS in which it participates on a consistent and reasonable basis and therefore accounts for the scheme as a defined contribution scheme, in accordance with FRS 17. For defined contribution schemes the amount charged to the income and expenditure account in respect of pension costs is the contribution payable in the year. Differences between contributions payable in the year and contributions actually paid are shown either as accruals or prepayments in the balance sheet.

Further information on pensions and post-retirement benefits is disclosed in note 30.

3. BALANCE SHEET

a) Land and Buildings

Land and buildings are stated at valuation or, in the case of buildings in the course of construction or constructed since the last valuation, at cost. The basis of valuation is open market value or, where this cannot readily be established, depreciated replacement cost. Messrs. King Sturge, Chartered Surveyors, performed the valuation as at 31 July 2001.

On adoption of FRS 15 Tangible Fixed Assets, the University adopted a policy to fully revalue land and buildings every five years with an interim valuation in the third year.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their expected remaining useful lives, subject to a maximum of 40 years. Buildings in the course of construction are not depreciated.

Leasehold buildings are depreciated over their expected useful lives, subject to a maximum of 40 years.

Finance costs directly attributable to the construction of land and buildings are capitalised as part of the cost of those assets. Where expenditure incurred on the development of new premises includes the cost of equipping the premises with furniture etc., the expenditure is capitalised together with the works costs.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated in accordance with 1d) above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the buildings.

All buildings are regularly reviewed for indications of impairment. Where there is an impairment the difference between the assessed recoverable value of the building and its written down value is charged to the income and expenditure account.

b) Equipment

Equipment, including computers and software, costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

Capitalised equipment is stated at cost and depreciated over its expected useful life, as follows:

Computer equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)
Other equipment	- 8 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated in accordance with the above policy, with the related grant being credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related equipment (the period of the grant in respect of specific research projects).



UNIVERSITY OF EXETER STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

c) *Donated Assets*

Assets donated on or after 1 August 1994 are capitalised in accordance with the criteria set out in notes a) and b) above. They are brought into the balance sheet at open market value for existing use or depreciated replacement cost on the date of receipt. Land and buildings donated prior to 1 August 1994 were capitalised at 31 July 1996 at valuation. It is not considered practical to identify and attribute a value to other items.

d) *Investments*

Fixed asset investments are included in the balance sheet at market value. Increases/decreases in value arising on the revaluation of fixed asset investments are carried to the revaluation reserve. Where permanent diminution in value of an asset occurs, the excess will be charged to the income and expenditure account to the extent it is not covered by a revaluation surplus.

Endowment asset investments are carried at market value. Such investments held at the previous year- end, and carried at market value at that date, may be sold during the year. This crystallizes the value and any difference between the opening market value and the sale proceeds represents a revaluation movement. Consequently the financial statements do not distinguish between the valuation adjustment relating to sales and those relating to continuing holdings as they are together treated as changes in the value of the investment portfolio.

Current asset investments are included at the lower of cost and net realisable value.

e) *Stock*

Stock is shown at the lower of cost and net realisable value for building maintenance, bars, residences and catering stores, and the University Shop. Where necessary, provision is made for obsolete, slow-moving and defective stocks. Stocks of consumables held for administration purposes and in academic schools are not reflected in the balance sheet and are therefore met from recurrent funds in the year of purchase; it is not considered that such stocks have any material effect on the income and expenditure account.

f) *Cash Flows and Liquid Resources*

Cash flows comprise increases and decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty.

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and certificates of deposit held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

NOTES TO THE ACCOUNTS



NOTE 1 FUNDING COUNCIL GRANTS

	Year Ended 31 July 2005			Year Ended 31 July 2004
	HEFCE	TTA	TOTAL	£'000
	£'000	£'000	£'000	£'000
Recurrent grant	39,375	2,804	42,179	39,285
Specific grants				
HEFCE				
Medical capital and equipment	606	—	606	416
Rewarding and developing staff in HE	1,846	—	1,846	1,465
Reach-out to business and the community	—	—	—	217
HE Innovations Fund	674	—	674	517
Excellence challenge	—	—	—	219
Combined Universities in Cornwall	509	—	509	264
Institutional learning and teaching strategies	380	—	380	205
Others	204	—	204	227
TTA				
INSET	—	172	172	(399)
Secondary Subject Shortage Scheme	—	47	47	91
Rewarding and developing staff in HE	—	—	—	109
Partnership arrangements	—	—	—	40
Student Associates Scheme	—	961	961	578
Others	—	56	56	47
Deferred capital grants released in the year				
Buildings (note 20)	970	—	970	706
Equipment (note 20)	244	—	244	255
	44,808	4,040	48,848	44,242

NOTE 2 TUITION FEES AND EDUCATION CONTRACTS

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Home/EU undergraduates: full-time	9,065	8,076
Home/EU undergraduates: part-time	356	422
Home/EU postgraduates: full-time	4,744	4,413
Home/EU postgraduates: part-time	1,587	1,272
International students	10,271	9,246
Non-credit bearing courses and other tuition fees	1,662	1,609
Research Training Support Grants	110	109
	27,795	25,147

NOTES TO THE ACCOUNTS

NOTE 3 RESEARCH GRANTS AND CONTRACTS

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Research councils	6,290	6,206
UK based charities	2,738	2,288
UK central government, local authorities, health & hospital authorities	3,780	3,406
UK industry, commerce and public corporations	975	718
European Union government and other bodies	1,235	939
Other grants and contracts	275	251
	<u>15,293</u>	<u>13,808</u>

Included above are deferred capital grants released in the year of £147,000 (2004: £439,000)

NOTE 4 OTHER INCOME

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Residences, catering and conferences	20,420	19,941
Other Services Rendered		
Validation fees	131	153
Teaching companies	375	194
UK central government, local authorities, health and hospital authorities	1,397	1,586
Others	1,730	820
Income from health and hospital authorities	2,552	1,591
Other Operating Income		
Other external grants	921	839
Conferences, summer schools, fair and degree days income	656	736
Donations and other fundraising	403	590
Erasmus	423	450
Sports and swimming pools	567	424
Externally recharged staff time	504	314
Supplies and services to external customers	672	238
Rental income and room hire	280	211
Peninsula Medical School	767	654
Tremough Campus Services	2,331	—
Tremough Development Vehicle Limited	—	66
Release of deferred capital grants	916	241
Other income	3,273	2,484
	<u>38,318</u>	<u>31,532</u>

NOTES TO THE ACCOUNTS

NOTE 5 ENDOWMENT AND INVESTMENT INCOME

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Income from specific endowments	378	416
Income from short term investments	626	446
Income from fixed asset investments	40	43
Other interest receivable	—	2
	<u>1,044</u>	<u>907</u>

NOTE 6 STAFF COSTS

The average number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:

	Year Ended 31 July 2005	Year Ended 31 July 2004
	Number	Number
Academic staff	635	622
Research staff	310	270
Teaching fellows (formerly Tutors)	137	106
Occasional lecturers	32	31
Support staff	1,647	1,570
Casuals	148	129
Total	<u>2,909</u>	<u>2,728</u>

Staff costs for the above persons:

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Salaries and wages	64,752	60,534
Social security costs	4,956	4,586
Pension costs (note 30)	8,003	6,463
	<u>77,711</u>	<u>71,583</u>

Salaries and wages include an exceptional charge of £46,000 (2004: £638,000) in respect of financial restructuring at the Camborne School of Mines prior to its relocation to the Tremough campus.

NOTES TO THE ACCOUNTS

NOTE 6 STAFF COSTS Contd.

	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Emoluments of the Vice-Chancellor:		
Remuneration (including benefits in kind)	163	137
Pension contributions to USS	23	19
	<u>186</u>	<u>156</u>

The emoluments have been independently determined by the lay officers of the Council and reviewed according to performance.

Compensation for loss of office paid to a former higher paid employee:

	Year Ended 31 July 2005 £'000	Year Ended 31 July 2004 £'000
Payments to USS for enhanced pension benefits	<u>—</u>	<u>21</u>

Remuneration of other higher paid staff, excluding employer's pension contributions but inclusive of payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment and which are excluded in the University's income and expenditure account:

	2004/05 £'000	2003/04 £'000
£70,000 - £79,999	24	4
£80,000 - £89,999	3	1
£90,000 - £99,999	1	1
£120,000 - £129,999	1	—
£130,000 - £139,999	1	1
£160,000 - £169,999	1	—
£170,000 - £179,999	—	1
£190,000 - £199,999	1	—

Included in the above are members of staff whose annual salary falls into one of the above bands but who joined the University part way through the year.

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
Residences, catering and conferences	9,027	10,202
Rents and rates	374	417
Heat, light, water and power	1,227	1,176
Repairs and general maintenance	4,139	2,503
Laboratory equipment and consumables	2,340	2,442
IT hardware, software and licences	2,041	2,941
Other equipment	1,091	679
Books and periodicals	1,711	1,630
Non-contract staff and external examiners	3,365	2,712
Administrative costs including postage and telephones	1,852	1,828
Insurances	382	390
Publicity, publications and student recruitment	1,127	1,097
Travel, accommodation, subsistence and hospitality	3,836	3,134
Fellowships, scholarships and prizes	3,210	2,783
Field courses and other student support	3,796	2,816
Legal, professional and consultancy fees	1,210	1,115
Auditor's remuneration	64	41
Auditor's remuneration in respect of non-audit services	16	15
University of Exeter in Cornwall (UEC) initiative	1,229	—
Other expenses	1,116	1,286
	<u>43,153</u>	<u>39,207</u>

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES Contd.

ANALYSIS OF 2004/05 EXPENDITURE BY ACTIVITY

	Staff Costs £'000	Other Operating Expenses £'000	Depre- ciation £'000	Interest Payable £'000	Total 2004/05 £'000	Total 2003/04 £'000
Academic schools	43,682	11,920	359	—	55,961	50,312
Academic services	4,509	2,661	69	—	7,239	7,209
Administration						
Central administration and services	5,478	1,886	7	40	7,411	7,520
General education expenses	1,768	4,158	—	—	5,926	5,297
Staff and student facilities	1,432	1,369	—	—	2,801	1,908
	8,678	7,413	7	40	16,138	14,725
Premises						
Rent and rates	—	382	—	—	382	406
Light, heat, power and water	—	1,242	—	—	1,242	1,176
Repairs and maintenance	2,497	4,032	—	—	6,529	4,751
Portering and security	2,321	152	—	—	2,473	2,390
Other	—	715	3,326	416	4,457	2,306
	4,818	6,523	3,326	416	15,083	11,029
Other Expenditure						
Residences, catering and conferences	6,020	9,027	2,997	2,877	20,921	19,771
Research grants and contracts	8,101	4,449	146	—	12,696	11,749
Other expenses	1,317	1,160	—	—	2,477	2,286
FRS 17 pension costs	540	—	—	—	540	300
Exceptional items (see note 6)	46	—	—	—	46	638
	16,024	14,636	3,143	2,877	36,680	34,744
Total	77,711	43,153	6,904	3,333	131,101	118,019
2003/04: Comparatives	71,583	39,207	5,640	1,589	118,019	

In addition, there was a £400,000 (2004: nil) pension cost that was charged to the Income and Expenditure Account (note 30).

NOTES TO THE ACCOUNTS

NOTE 7 OTHER OPERATING EXPENSES Contd.

The depreciation charge has been funded by:

	Year Ended	Year Ended
	31 July 2005	31 July 2004
	£'000	£'000
Deferred capital grants released – buildings (note 20)	2,198	922
Deferred capital grants released – equipment (note 20)	404	720
Revaluation reserve released (note 22)	2,307	2,175
General income	3,043	1,823
	7,952	5,640
Impairment included within restructuring costs (note 9A)	(1,048)	—
	6,904	5,640

NOTE 8 INTEREST PAYABLE

	Year Ended	Year Ended
	31 July 2005	31 July 2004
	£'000	£'000
On bank loans, overdrafts and other loans:		
Repayable within 5 years, by instalments	11	9
Repayable wholly or partly in more than 5 years	3,322	1,580
	3,333	1,589

In addition, interest payable in the year amounting to £98,000 (2004: £650,000) was capitalised. This interest relates to borrowings in respect of the development of new student residences whilst under construction.

NOTE 9 EXCEPTIONAL ITEM

	Year Ended	Year Ended
	31 July 2005	31 July 2004
	£'000	£'000
Fundamental restructuring costs (note 9A)	6,775	—
Deficit on disposal of land and buildings (note 9B)	3,219	—
Charge arising on re-financing (note 9C)	—	2,654
	9,994	2,654

NOTE 9A EXCEPTIONAL ITEM

During the year the University implemented its strategic plan to refocus as a research led institution. This included the early retirement of staff across various sectors of the University, notably in the Schools of Biological and Chemical Sciences; and Education and Lifelong Learning.



NOTES TO THE ACCOUNTS

NOTE 9A EXCEPTIONAL ITEM Contd.

As part of the restructuring arrangements staff taking early retirement were given enhanced pension benefits including added years of service and lump sum entitlements.

Compensation payments were also made to students affected by the restructuring.

NOTE 9B EXCEPTIONAL ITEM – DEFICITS ON DISPOSALS OF LAND AND BUILDINGS

During the year the Institute of Cornish Studies moved to the new Combined Universities in Cornwall campus at Tremough, just outside Penryn. The Institutes' previous bases, at Hayne Corfe in Truro and the Camborne School of Mines at Camborne, have been disposed of or the leases surrendered and the proceeds were reinvested in the new campus at Tremough.

Also during the year two small off-campus residences were sold (Trenance House and Hope Cottage). The majority of the proceeds from these sales were reinvested in on-campus residences developments.

Finally, as part of the Birks/Duryard student residences capital project, the original halls at the Birks site (Haldon, Raddon and Brendon) were demolished to make way for the construction of the new residences.

NOTE 9C EXCEPTIONAL ITEM – CHARGE ARISING ON RE-FINANCING

On 28 February 1997 a wholly owned subsidiary company of the University, Exeter Development Capital Limited, issued £11.46m Accreting Preference Shares (APS) to a subsidiary of Nat West Bank plc. The funds received of £11.46m were loaned to the University (under FRS 4 Capital Instruments, the preference shares issued by Exeter Development Capital Limited were accounted for as a long-term loan in the consolidated accounts).

An obligation existed in the form of a put/call option exercisable by either the University or Nat West Bank plc to redeem the preference shares under certain circumstances, prior to the redemption date. During the year ended 31 July 2004 the Bank exercised its option. The University was obliged to purchase the shares and pay an additional premium in accordance with terms agreed under the financial arrangements entered into with the Bank. This resulted in a charge of £2.654m being reported as an exceptional item in the income and expenditure account. The University had additional bank facilities in place to meet the liability and also chose to refinance a fixed interest rate loan originally taken out in 1995 at the same time as refinancing the APS arrangement.

NOTE 10 (DEFICIT) ON CONTINUING OPERATIONS FOR THE YEAR

The deficit on continuing operations for the year is made up as follows:

	Year Ended 31 July 2005	Year Ended 31 July 2004
	£'000	£'000
University's deficit for the year	(12,527)	(5,104)
(Deficit)/Surplus generated by the subsidiary undertakings and joint ventures	(151)	1
	<hr/>	<hr/>
	(12,678)	(5,103)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 11 TANGIBLE FIXED ASSETS

Group	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
Cost or Valuation				
At 1 August 2004	214,751	19,489	9,906	244,146
Additions	13,054	6,819	556	20,429
Disposals (note 9B)	(5,019)	(474)	(2,050)	(7,543)
At 31 July 2005	222,786	25,834	8,412	257,032
Depreciation				
At 1 August 2004	13,464	282	7,950	21,696
Charge for the year (note 7)	5,303	956	645	6,904
Impairment (note 9A)	1,048	—	—	1,048
Disposals (note 9B)	(679)	(261)	(2,050)	(2,990)
At 31 July 2005	19,136	977	6,545	26,658
Net Book Value				
At 31 July 2005	203,650	24,857	1,867	230,374
At 31 July 2004	201,287	19,207	1,956	222,450
Financed by capital grant	122,925	24,556	1,202	148,683
Other	80,725	301	665	81,691
At 31 July 2005	203,650	24,857	1,867	230,374

- a) The total cost of land and buildings is mainly attributable to the development or purchase of property for teaching, research or accommodation purposes.
- b) Freehold and leasehold land and buildings with a net book value of £142m (2004: £138m) have been financed, in whole or in part, by exchequer funds. Should these buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the conditions given in its Financial Memorandum with the Higher Education Funding Council for England.
- c) At 31 July 2005 freehold and leasehold land and buildings included £7.2m (2004: £47.3m) in respect of buildings under construction.
- d) Included in the cost of freehold land and buildings is £0.8m bank loan interest payable that has been capitalised. These finance costs are directly attributable to the construction of student residences and were capitalised as part of the cost of those assets whilst they were in the course of construction.

NOTES TO THE ACCOUNTS

NOTE 11 TANGIBLE FIXED ASSETS Contd.

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
Cost or Valuation	£'000	£'000	£'000	£'000
At 1 August 2004	214,764	19,489	9,907	244,160
Additions	13,054	6,771	551	20,376
Disposals (note 9B)	(5,019)	(474)	(2,045)	(7,538)
At 31 July 2005	222,799	25,786	8,413	256,998
Depreciation				
At 1 August 2004	13,464	282	7,950	21,696
Charge for the year	5,303	954	644	6,901
Impairment (note 9A)	1,048	—	—	1,048
Disposals (note 9B)	(679)	(261)	(2,045)	(2,985)
At 31 July 2005	19,136	975	6,549	26,660
Net Book Value				
At 31 July 2005	203,663	24,811	1,864	230,338
At 1 August 2004	201,300	19,207	1,957	222,464

NOTE 12 INVESTMENTS

	Group		University	
	2005	2004	2005	2004
	£'000	£'000	£'000	£'000
Fine art collection	1,613	1,613	1,613	1,613
Library special collection	2,101	2,101	2,101	2,101
Quoted stock	1,536	1,208	1,536	1,208
Subsidiary undertakings	—	60	2,060	13,520
Other investments	49	39	49	39
	5,299	5,021	7,359	18,481
Less: Provision for reduction in value of Exeter Enterprises shares	—	(60)	—	(60)
	5,299	4,961	7,359	18,421

NOTES TO THE ACCOUNTS

NOTE 12 INVESTMENTS Contd.

The University's fine art collections of paintings, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2001 by Messrs. Bearn's, Auctioneers and Valuers of Fine Art, on an open market value basis and for insurance purposes.

The University's special library collections were professionally valued during the year ended 31 July 2002 by Messrs Bonhams, Auctioneers and Valuers, on an open market value basis. During the year ended 31 July 2004 Messrs. Sotheby's valued the University's collection of sculptures.

The investment in subsidiary undertakings comprises the following:

Name	Shareholding	Principal business activity
Dartvale Limited	2,000,002 Ordinary £1	Property development
Exeter Development Capital Limited	2 Ordinary £1 shares	Provision of finance (see notes below)
Exeter Enterprises Limited	60,110 Ordinary £1	Consultancy activities
Innovation Exeter Limited	1 Ordinary £1	Dormant company

The University wholly owns the above holdings. All companies are registered in England and Wales.

On 28 June 2005 Exeter Development Capital Limited (EDC) redeemed all of its preference shares that were owned by the University at a value equivalent to the total assets of the Company. On 15 July 2005 EDC also applied to be struck off the Register of Companies under section 652 of the Companies Act 1985 having been solely used to facilitate a borrowing arrangement with the National Westminster Bank Plc that was terminated during the previous year.

Also during the year the provision for reduction in value of Exeter Enterprises Limited's shares was written back due to the value of shareholders funds in the Company exceeding the University's investment in the Company.

Other investments comprise the following:

Name	Holding
CVCP Properties Plc	37,355 Ordinary £1 shares
Adsfab Limited	1,000 Ordinary "C" £1 shares
Auxetix Limited	100 Ordinary "B" £0.10 shares
BioElf Limited	60 Ordinary £0.10 shares
Evanesco Limited	284 Ordinary £0.10 shares
Exeter Antioxidant Therapeutics Limited	200 Ordinary £0.10 shares
Exeter Nanobacteria Limited	200 Ordinary £0.10 shares
Medilarv Limited	200 Ordinary £0.10 shares
Optomo Plc	249,564 Ordinary £0.01 shares
Simpleware Limited	100 Ordinary £1 shares
Skipworth Engelhardt Asset Management Strategists Limited	71 Ordinary "A" £1 and 405 Deferred £1 shares
EMC Network (SW) Limited	7,000 Ordinary £1 shares

NOTES TO THE ACCOUNTS

NOTE 13 INVESTMENT IN JOINT VENTURE

On 1 August 2004 the University of Exeter and University College Falmouth (UCF) (formerly Falmouth College of Arts) transferred all their issued shares in Tremough Development Vehicle Limited (TDV) to Tremough Campus Services (TCS), a company limited by guarantee and having no share capital. TCS is a joint venture company owned equally by the University and UCF. Until this date TDV was a joint venture company with UCF and had been established to provide the construction of the main campus for the Combined Universities in Cornwall project to be based at Tremough in Penryn. TCS manages the services provided on the campus and also owns and runs the student residences built on that site.

Both TCS and TDV have financial years that end on 31 July.

University of Exeter's share of TCS

	£'000	£'000
<u>For the year ending 31 July 2005</u>		
Income		<u>2,331</u>
Deficit before and after tax		<u>(150)</u>
<u>As at 31 July 2005</u>		
Fixed assets	10,196	
Current assets	<u>1,740</u>	
		11,936
Liabilities: due within one year	(1,479)	
Liabilities: due after one year or more	<u>(10,382)</u>	
		<u>(11,861)</u>
Share of net assets		<u>75</u>

NOTE 14 ENDOWMENT ASSET INVESTMENTS – Group and University

	2005 £'000	2004 £'000
Balance brought forward	10,585	9,772
Additions – new funds received	18	10
Additions – interest and dividends re-invested	366	371
Disposals – capital withdrawn	(57)	(161)
Disposals – income withdrawn	(322)	(299)
Appreciation on disposals/revaluation	2,961	892
	<u>13,551</u>	<u>10,585</u>
The investments comprise:		
Fixed interest stocks	1,440	950
Equities	12,111	9,635
Bank balances	—	—
	<u>13,551</u>	<u>10,585</u>

NOTES TO THE ACCOUNTS

NOTE 15 DEBTORS

	Group		University	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Amounts falling due within one year:				
Debtors	10,059	9,690	9,461	9,020
Amounts owed by group undertakings:				
Subsidiary companies	—	—	2,790	2,767
Prepayments and accrued income	3,550	6,468	3,526	6,468
	13,609	16,158	15,777	18,255

NOTE 16 RESTRICTED CASH AT BANK

In the year ended 31 July 2004 a £20 million loan facility was arranged with The Royal Bank of Scotland (RBS) as funding for the 2003-06 capital programme. During the year ended 31 July 2005 the composition of this capital programme fundamentally changed.

The original loan agreement stated that a predetermined amount must be drawn each quarter based on the programme's original profile of capital expenditure. The change in composition meant that the funds due to be drawn each quarter were in excess of the expenditure incurred. RBS set up a deposit account to hold the excess funds until they are required for the capital purpose for which they were originally intended.

This deposit account is in the name of the University of Exeter but is controlled by RBS. The balance can only be utilised on receipt by RBS of proof of capital expenditure by the University. The deposit account is not considered to be liquid funds in the University's books. The interest rate payable on the loan facility is 5.82% per annum. The interest rate receivable on the deposit account is 0.05% above the Bank of England base rate.

NOTE 17 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Group		University	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans and overdrafts (note 19)	3,784	942	3,784	942
Payments received in advance	1,145	777	1,145	777
Trade creditors	11,862	11,384	11,666	11,381
Amounts owed to group undertakings:				
Subsidiary companies	—	—	614	504
Taxation and social security	2,046	1,911	2,036	1,912
Accruals and deferred income	10,182	12,340	10,291	12,334
	29,019	27,354	29,536	27,850

Trade creditors include an amount of £586,000 (2004: £803,000) due in respect of pension liabilities following early retirements.

NOTES TO THE ACCOUNTS

NOTE 18 CREDITORS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group		University	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Bank loans (note 19)	60,750	46,214	60,750	46,214
Inherited Liability – Cornwall County Council	65	72	65	72
Amounts owed to group undertakings:				
Subsidiary companies	—	—	3,306	14,986
Other long term creditors	1,811	1,196	1,811	1,196
	<u>62,626</u>	<u>47,482</u>	<u>65,932</u>	<u>62,468</u>

Included within bank loans is interest of £1,917,000 (2004: £418,000) that has been added to the loan balance whilst the University benefits from a repayment holiday.

Other long-term creditors include an amount of £1,092,000 (2004: £477,000) due in respect of pension liabilities following early retirements.

NOTE 19 BORROWINGS - Group and University

a) Bank loans and overdrafts

	2005 £'000	2004 £'000
Bank loans and overdrafts are repayable as follows:		
Bank overdrafts	3,317	—
Bank loans:		
In one year or less	467	942
In one to two years	495	1,843
In two to five years	3,645	7,320
In five years or more	56,610	37,051
	<u>64,534</u>	<u>47,156</u>

NOTES TO THE ACCOUNTS

NOTE 19 BORROWINGS Contd. - Group and University

i) Included within the total balance above is the following: -

	Facility £'000	Interest Rate %	Repayment	Term	2005 £'000	2004 £'000
Barclays Bank Plc	28,000	5.88	Quarterly	27 years (to 2032)	24,117	18,819
Royal Bank of Scotland Plc	22,000	7.66	Quarterly	25 years (to 2029)	21,396	21,701
Royal Bank of Scotland Plc	20,000	5.82	Quarterly	28 years (to 2032)	9,286	2,700
Royal Bank of Scotland Plc	5,705	LIBOR plus mark up	Annually	25 years (to 2016)	3,496	883
Royal Bank of Scotland Plc	1,300	LIBOR plus mark up	Quarterly	25 years (to 2023)	923	975
Royal Bank of Scotland Plc	1,291	LIBOR plus mark up	Annually	25 years (to 2022)	878	930
Barclays Bank Plc	1,250	LIBOR plus mark up	Quarterly	25 years (to 2025)	1,121	1,148
					<hr/> 61,217	<hr/> 47,156
Repayable within one year					(467)	(942)
					<hr/> 60,750	<hr/> 46,214

All bank loans and overdrafts are secured over University freehold land and buildings.

b) Finance Leases

The University is not committed to any finance lease obligations.

NOTES TO THE ACCOUNTS

NOTE 20 DEFERRED CAPITAL GRANTS - Group and University

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2004			
Land and buildings	24,835	21,998	46,833
Equipment	1,129	116	1,245
	<u>25,964</u>	<u>22,114</u>	<u>48,078</u>
Grants receivable			
Land and buildings	7,304	4,685	11,989
Equipment	127	234	361
	<u>7,431</u>	<u>4,919</u>	<u>12,350</u>
Released to Income and Expenditure Account			
Land and buildings	(970)	(903)	(1,873)
Equipment	(244)	(160)	(404)
On impairment of land and buildings (note 9A)	(325)	—	(325)
	<u>(1,539)</u>	<u>(1,063)</u>	<u>(2,602)</u>
At 31 July 2005			
Land and buildings	30,844	25,780	56,624
Equipment	1,012	190	1,202
	<u>31,856</u>	<u>25,970</u>	<u>57,826</u>

NOTE 21 ENDOWMENTS – Group and University

Specific Endowments	2005 £'000	2004 £'000
At 1 August 2004		
Additions	18	10
Disposals	—	(51)
Appreciation of endowment asset investments	2,961	892
Income for the year	366	371
Transferred to income and expenditure account	(379)	(409)
	<u>13,551</u>	<u>10,585</u>
At 31 July 2005		
Representing:		
Trustee Securities Pool	2,350	1,779
Institute for Arab and Islamic Studies	10,147	8,014
Other	1,054	792
	<u>13,551</u>	<u>10,585</u>

Additions are new endowments received and income for the year includes investment interest and dividends received on the portfolios.

NOTES TO THE ACCOUNTS

NOTE 22 REVALUATION RESERVE

Group

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2004	94,821	4,022	98,843
Revaluation in the year			
Land and buildings in joint venture	225	—	225
Fixed assets investments - Quoted shares	—	328	328
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(2,307)	—	(2,307)
Release of previous years property revaluation surpluses on current year disposals	(3,818)	—	(3,818)
At 31 July 2005	<u>88,921</u>	<u>4,350</u>	<u>93,271</u>

University

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
At 1 August 2004	94,821	4,022	98,843
Revaluation in the year			
Land and buildings in joint venture	—	—	—
Fixed assets investments - Quoted shares	—	328	328
Transfer from revaluation to general reserve:			
Depreciation on re-valued assets	(2,295)	—	(2,295)
Release of previous years property revaluation surpluses on current year disposals	(3,818)	—	(3,818)
At 31 July 2005	<u>88,708</u>	<u>4,350</u>	<u>93,058</u>

NOTE 23 INCOME AND EXPENDITURE ACCOUNT

	Group		University	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Balance at 1 August	22,244	26,371	22,260	26,388
Deficit for the year	(12,678)	(5,103)	(12,527)	(5,104)
Transfers from revaluation reserves	6,125	2,175	6,113	2,175
Other movements	(101)	(1,199)	(101)	(1,199)
Balance at 31 July	<u>15,590</u>	<u>22,244</u>	<u>15,745</u>	<u>22,260</u>

NOTES TO THE ACCOUNTS

NOTE 23 INCOME AND EXPENDITURE ACCOUNT Contd.

Represented by:

Consolidated

	Balance at 1 August 2004 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2005 £'000
Capital reserve	20,023	—	—	291	20,314
Committed balances	13,241	—	—	(1,545)	11,696
Specific reserves	2,087	—	—	526	2,613
Residences equalisation	(3,200)	—	—	(12)	(3,212)
Financial restructuring	(2,654)	—	—	—	(2,654)
Pension liability	(11,300)	(1,700)	—	(100)	(13,100)
General reserves	4,047	(10,978)	6,125	739	(67)
	<u>22,244</u>	<u>(12,678)</u>	<u>6,125</u>	<u>(101)</u>	<u>15,590</u>

University

	Balance at 1 August 2004 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2005 £'000
Capital reserve	20,023	—	—	291	20,314
Committed balances	13,241	—	—	(1,545)	11,696
Specific reserves	2,087	—	—	526	2,613
Residences equalisation	(3,200)	—	—	(12)	(3,212)
Financial restructuring	(2,654)	—	—	—	(2,654)
Pension liability	(11,300)	(1,700)	—	(100)	(13,100)
General reserves	4,063	(10,827)	6,113	739	88
	<u>22,260</u>	<u>(12,527)</u>	<u>6,113</u>	<u>(101)</u>	<u>15,745</u>

NOTES TO THE ACCOUNTS

NOTE 24 RECONCILIATION OF CONSOLIDATED OPERATING DEFICIT TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2005	2004
	£'000	£'000
Deficit on continuing operations	(12,678)	(5,103)
FRS 17 – Pension Adjustment (note 30)	1,700	300
Depreciation (note 7)	6,904	5,640
Impairment of land and buildings (note 9A)	1,048	—
Deficit on disposal of tangible fixed assets (note 9)	3,219	—
Deferred capital grants released (note 20)	(2,277)	(1,642)
Deferred capital grants released on impairment (note 20)	(325)	—
Endowment and investment income (note 5)	(1,044)	(907)
Interest payable (note 8)	3,333	1,589
Decrease in stock	198	39
(Increase)/Decrease in debtors	(734)	1,308
Increase in creditors	2,820	2,695
	<hr/>	<hr/>
Net cash inflow from operating activities	2,164	3,919
	<hr/>	<hr/>

NOTE 25 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	2005	2004
	£'000	£'000
Income from endowments	365	378
Income from short term investments	646	447
Other interest received	40	45
Interest paid	(2,062)	(903)
	<hr/>	<hr/>
Net cash outflow from returns on investments and servicing of finance	(1,011)	(33)
	<hr/>	<hr/>

NOTE 26 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	2005	2004
	£'000	£'000
Purchase of tangible assets	(24,264)	(35,402)
Payments to acquire long term investments	140	(121)
Payments to acquire endowment asset investments	(307)	(315)
	<hr/>	<hr/>
Total fixed and endowment assets acquired	(24,431)	(35,838)
Receipts from the sale of tangible assets	1,334	220
Receipts from the sale of long term investments	—	1,249
Receipts from the sale of endowment assets	379	460
Cash placed in restricted deposit account	(3,676)	—
Deferred capital grants received	15,645	14,396
Endowments received	18	10
	<hr/>	<hr/>
Net cash outflow from capital expenditure and financial investment	(10,731)	(19,503)
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 27 MANAGEMENT OF LIQUID RESOURCES

	2005	2004
	£'000	£'000
Cash withdrawn from/(placed in) short term deposits	2,000	(2,000)
Net cash inflow/(outflow) from management of liquid resources	<u>2,000</u>	<u>(2,000)</u>

NOTE 28 FINANCING

	2005	2004
	£'000	£'000
Debt due beyond one year:		
New loans repayable by 2012	1,288	—
New secured loan repayable by 2016	3,000	—
New secured loan repayable by 2029	—	21,701
New secured loan repayable by 2032	4,317	14,134
New secured loan repayable by 2032	<u>6,300</u>	<u>2,700</u>
	14,905	38,535
Repayment of amounts borrowed	<u>(1,726)</u>	<u>(21,126)</u>
Net cash inflow from financing	<u>13,179</u>	<u>17,409</u>

NOTE 29 ANALYSIS OF CHANGES IN NET DEBT

	At 1 August	Cash	Other	At 31 July
	2004	Flows	Changes	2005
	£'000	£'000	£'000	£'000
Cash in hand and at bank	8,865	8,841	—	17,706
Endowment asset investments	(426)	77	—	(349)
Overdrafts	—	(3,317)	—	(3,317)
	<u>8,439</u>	<u>5,601</u>	<u>—</u>	<u>14,040</u>
Debt due within 1 year	(1,751)	691	—	(1,060)
Debt due after 1 year	(47,482)	(13,870)	(1,274)	(62,626)
FRS 17 - Pension Liability	(11,300)	—	(1,800)	(13,100)
Current asset investments	<u>2,000</u>	<u>(2,000)</u>	<u>—</u>	<u>—</u>
	<u>(50,094)</u>	<u>(9,578)</u>	<u>(3,074)</u>	<u>(62,746)</u>

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES

The two principal schemes for the University's staff are the national Universities Superannuation Scheme (USS) and the University of Exeter Retirement Benefits Scheme (ERBS), which are externally invested defined benefit (final salary) schemes, contracted out of the State Second Pension. The assets of the schemes are held in separate trustee-administered funds.

The University also makes contributions to the National Health Superannuation Scheme (NHSS) in respect of a small number of staff at its School of Sport & Health Sciences and the Peninsula Medical School.

The latest actuarial valuation for USS was at 31 March 2002 and for ERBS was 6 April 2003. The pension costs for both schemes are assessed using the projected unit method. The assumptions that have the most significant effect on the result of the valuations are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. The assumptions and other data, which have the most significant effect on the determination of contribution levels, are as follows:

	USS	ERBS
Latest actuarial valuations	31 March 2002	6 April 2003
Past Service Liabilities		
Valuation rate of interest per annum	5.0%	5.5%
Salary increases per annum	3.7%	4.1%
Pension increases per annum	2.7%	2.6%
Future Service Liabilities		
Valuation rate of interest per annum	6.0%	5.5%
Salary increases per annum	3.7%	4.1%
Pension increases per annum	2.7%	2.6%
Market value of assets at date of last valuation	£19,938m	£41m
Value of past service liabilities	£19,776m	£62m
Proportion of members' accrued benefits covered		
by the actuarial value of the assets	101%	66%

(i) USS

The University participates in the Universities Superannuation Scheme, a defined benefit scheme that is externally funded and contracted out of the State Second Pension. The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries. To fund the reduction of 0.25% for the period of 12 years from the valuation (the average outstanding working lifetime of current members of the Scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5m (including the Supplementary Section) to be carried forward.

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

Surpluses or deficits, which arise at future valuations may impact on the University's future contribution commitment. A formal valuation was undertaken on 31 March 2005, when the above rates were reviewed, but at the date of approval of these financial statements the results of this review have not been reported.

The total pension cost for the University was £5,613,000 (2004: £5,033,000). The contribution rate payable by the University was 14% of pensionable salaries.

(ii) ERBS

The latest actuarial valuation (5 April 2003) showed that the funds held by the Trustees were insufficient to meet anticipated future commitments. The University agreed to increase employer's contributions in order to fund the projected shortfall; a rate of 10% was applied in 2003/04 and this was increased to 16% from 1 August 2004. The Actuary updated the figures as at 31 July 2004 and as at 31 July 2005. The principal assumptions used were in accordance with those used by independent qualified actuaries in updating the most recent reviews of the UK schemes for Financial Reporting Standard (FRS 17) purposes as follows:

	2005	2004
	%	%
Rate of increase in salaries	4.2	4.4
Rate of increase in pension payments	2.7	2.9
Discount rate for scheme liabilities	5.0	5.7
Inflation assumption	2.7	2.9

The assets in the scheme and the expected rates of return were:

	Long-term rate of return expected at 31 July 2005	31 July 2005	Long-term rate of return expected at 31 July 2004	31 July 2004
	%	£'000	%	£'000
Equities	6.5	38,800	7.0	31,000
Bonds	4.5	15,500	5.0	14,800
Cash/Other	4.5	700	5.0	100
	<hr/>	<hr/>	<hr/>	<hr/>
	5.9	55,000	6.3	45,900
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of scheme liabilities		(68,100)		(57,200)
		<hr/>		<hr/>
Pension liability		(13,100)		(11,300)
		<hr/>		<hr/>

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

Income and Expenditure Account

Analysis of the amount charged to the income and expenditure account

	2005	2004
	£'000	£'000
Current service cost	1,500	1,400
Past service cost	1,600	—
Total operating charge	3,100	1,400

Analysis of the amount charged to the income and expenditure account

	2005	2004
	£'000	£'000
Within pension costs (note 6) – monthly contributions	1,800	1,100
Within pension costs (note 6) – FRS 17	540	300
Within restructuring costs (note 9) – FRS 17	760	—
Total operating charge	3,100	1,400

Analysis of amount credited to other finance expenditure

	2005	2004
	£'000	£'000
Expected return on pension scheme assets	2,900	3,000
Interest on pension scheme liabilities	(3,300)	(3,000)
Net (charge)/credit in accounts	(400)	—

Statement of Recognised Gains and Losses (STRGL)

Analysis of the amount recognised in the statement of recognised gains and losses

	2005	2004
	£'000	£'000
Actual return less expected return on scheme assets	6,500	(300)
Experience losses on the scheme liabilities	(700)	(200)
Changes in financial and demographic assumptions underlying the present value of scheme liabilities	(5,900)	(700)
Actuarial (loss) recognised in STRGL	(100)	(1,200)

NOTES TO THE ACCOUNTS

NOTE 30 PENSION SCHEMES Contd.

The movement in the schemes deficit during the year is made up as follows:

	2005 £'000	2004 £'000
Deficit on scheme at 1 August	(11,300)	(9,800)
Movements in the year:		
Current service cost	(1,500)	(1,400)
Contributions paid	1,800	1,100
Past services costs	(1,600)	—
Other finance expenditure	(400)	—
Actuarial losses	(100)	(1,200)
	<hr/>	<hr/>
Deficit on scheme at 31 July	(13,100)	(11,300)

History of experience gains and losses:

	2005	2004
Difference between expected and actual return on scheme assets:		
- Amount (£'000)	6,500	(300)
- Percentage of scheme assets	11.8%	(0.7%)
Experience losses on scheme liabilities:		
- Amount (£'000)	(700)	(200)
- Percentage of the present value of the scheme assets	(1.0%)	(1.4%)
Total amount recognised in the statement of total recognised gains and losses:		
- Amount (£'000)	(100)	(1,200)
- Percentage of the present value of the scheme assets	(0.1%)	(1.9%)

(iii) Total Pension Cost

The total pension cost for the University was:

	2005 £'000	2004 £'000
Contributions to USS - regular cost	5,613	5,033
Contributions to ERBS - current and past service cost	2,334	1,396
Contributions to other pension schemes	56	34
	<hr/>	<hr/>
	8,003	6,463
Supplementary pension costs	36	39
Early retirement pension enhancement costs	278	44
	<hr/>	<hr/>
Total pension cost	8,317	6,546

In addition to the contributions to ERBS above, £760,000 is included within exceptional restructuring costs (note 9A).



NOTES TO THE ACCOUNTS

NOTE 31 CAPITAL COMMITMENTS - Group and University

	2005	2004
	£'000	£'000
Commitments contracted at 31 July	8,350	15,381
Authorised but not contracted at 31 July	38,200	42,550
	<hr/>	<hr/>
	46,550	57,931
	<hr/>	<hr/>

During the year expenditure was incurred on academic buildings, student accommodation, conference facilities and student amenity buildings.

NOTE 32 RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the University Council (with members being drawn from local, public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures, which require individuals to declare any interest.

The University has taken advantage of the exemption under FRS 8 'Related party disclosures' not to disclose transactions with subsidiaries that are at least 90% owned.

During the year ended 31 July 2004 the University and University College Falmouth (UCF) subscribed equally to a joint venture company limited by guarantee for which exempt charitable status was obtained. Tremough Campus Services (TCS) was established to operate student and commercial services for the Tremough campus under a combined services agreement and commenced trading in August 2004.

On 1 August 2004 the University and UCF each transferred their 50% shareholdings in Tremough Development Vehicle Limited (TDV) to TCS. With effect from the same date TDV transferred its interest in the site at Tremough to TCS, along with all other assets, contracts and liabilities relating to the building of the student residences at the campus. The University and UCF have continued to guarantee a sum of £9.3m each to Lloyds TSB Bank plc, in respect of the borrowings of £18.6m transferred from TDV to TCS.

TDV was a joint venture company that was established to develop the first phase of buildings (under the Combined Universities in Cornwall initiative) at the Tremough campus. TDV will continue to undertake academic related building works on behalf of TCS. The University and UCF receive capital grants that are released to TDV to fund the academic development at the Tremough campus.

During the year TCS also contracted for the design and construction of Phase 2 of the hub development for the Combined Universities in Cornwall initiative. TCS will continue to contract the works with third parties and will recover funds from the University and UCF on the basis of an agreed split of costs and usage (initially set at 52.44% for the University and 47.56% for UCF).



NOTES TO THE ACCOUNTS

NOTE 32 RELATED PARTY TRANSACTIONS Contd.

Transactions between the University and TCS were as follows: -

	2005 £'000
Income derived from TCS	75
Expenditure incurred from TCS	965
Payments by TCS on behalf of the University	4,236

'Payments by TCS on behalf of the University' represents amounts paid to contractors for the University's share of the design and construction of Phase I at the Tremough campus.

The balances owing between the University and TCS at the year end were as follows: -

	2005 £'000
Amount owing from University of Exeter to TCS	974
Amount due to University of Exeter from TCS	50

NOTE 33 ACCESS FUNDS

Summary of transactions for the year ended 31 July 2005

	2005 £'000	2004 £'000
Balance unspent at 1 August	39	29
Funding Council grants	413	482
Interest earned	4	3
	<hr/>	<hr/>
	456	514
Disbursed to students	(406)	(472)
Administration costs	(4)	(3)
	<hr/>	<hr/>
Balance unspent at 31 July	46	39

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

NOTES TO THE ACCOUNTS

NOTE 34 ITT TRAINING BURSARIES

Summary of transactions for the year ended 31 July 2005

	2005	2004
	£'000	£'000
Balance brought forward at 1 August	91	212
TTA grants received	3,479	3,538
	<hr/>	<hr/>
Total TTA training bursary funding available for the year	3,570	3,750
Disbursements to students	(3,340)	(3,659)
	<hr/>	<hr/>
Funds to be recovered at 31 July	230	91
	<hr/>	<hr/>

TTA training bursaries are available solely for students; the University acts only as paying agent. The training bursaries are therefore excluded from the Income and Expenditure Account

NOTE 35 ITT MINORITY ETHNIC RECRUITMENT (MER)

Summary of transactions for the year ended 31 July 2005

	2005	2004
	£'000	£'000
Balance at 1 August	—	—
Basic and Challenge funds received	8	8
Recruitment funds received	2	2
	<hr/>	<hr/>
Total Minority Ethnic Recruitment funding available for the year	10	10
Disbursements to students	(10)	(10)
	<hr/>	<hr/>
Balance at 31 July	—	—
	<hr/>	<hr/>

NOTE 36 ITT STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2005

	2005	2004
	£'000	£'000
Balance at 1 August	—	—
Funds received	1,134	368
Disbursements to students	(1,134)	(368)
	<hr/>	<hr/>
Balance at 31 July	—	—
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA MEDICAL SCHOOL

INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2005

		University of Exeter 2004/2005 £'000	University of Plymouth 2004/2005 £'000	Total 2004/2005 £'000	Total 2003/2004 £'000
INCOME	Note				
Funding Council grants	iii	3,257	3,257	6,514	4,339
Tuition fees and education contracts		389	388	777	565
University research support		94	95	189	268
NHS funding	iv	2,552	2,552	5,104	3,181
Research grants and contracts		2,230	2,231	4,461	4,675
Other income	v	1,496	1,495	2,991	1,502
Endowment and investment income		126	125	251	70
Total income		10,144	10,143	20,287	14,600
EXPENDITURE					
Staff costs		5,501	5,501	11,002	9,258
Other operating expenses		3,752	3,752	7,504	5,182
Depreciation	vi	106	106	212	106
Total expenditure		9,359	9,359	18,718	14,546
Surplus on continuing operations		785	784	1,569	54

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA MEDICAL SCHOOL Contd.

BALANCE SHEET of the HE Community Chest as at 31 July 2005

	Note	2005 £'000	2004 £'000
Fixed assets			
Tangible assets	vi	768	457
Current assets			
Debtors	vii	3,694	4,334
Cash at bank and in hand	viii	5,305	3,242
		8,999	7,576
Creditors: amounts falling due within one year	ix	(6,581)	(6,733)
		2,418	843
Net current assets		2,418	843
Total assets less current liabilities		3,186	1,300
NET ASSETS		3,186	1,300
Deferred capital grants		757	440
Reserves	x	2,429	860
TOTAL		3,186	1,300

Explanatory Notes

i. *Background*

The Peninsula Medical School (PMS) is not a legal entity in its own right. It is a joint arrangement entered into in partnership by the University of Exeter and the University of Plymouth. PMS, in turn, has partnership arrangements with three NHS Trusts (The Royal Devon and Exeter NHS Foundation Trust, Plymouth Hospitals NHS Trust and Royal Cornwall Hospitals Trust) and further arrangements with healthcare providers throughout the South West peninsula.

ii. *Audit arrangements*

A 50% share of the Income, Expenditure and Balance Sheet items of the Peninsula Medical School is included within the Income and Expenditure Account and Balance Sheet of each of the Universities. These transactions are part of the audited financial statements of each University for the year ended 31 July 2005.

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA MEDICAL SCHOOL Contd.

iii. Funding Council grants

	2005	2004
	£'000	£'000
Recurrent grant	5,110	3,141
Specific grants		
HEFCE medical capital grant	—	107
HEFCE equipment capital grant	1,080	724
Widening participation	10	124
Other	133	153
Deferred capital grants released in the year		
Equipment	181	90
	<u>6,514</u>	<u>4,339</u>

iv. NHS Funding

	2005	2004
	£'000	£'000
Service Increment for Teaching (SIFT) funding	4,508	2,965
Capital funding	596	216
	<u>5,104</u>	<u>3,181</u>

This funding was receivable to cover HE expenditure attributable to the NHS aspects of the Peninsula Medical School.

v. Other Income

	2005	2004
	£'000	£'000
Other grant income	103	149
Other income	2,888	1,353
	<u>2,991</u>	<u>1,502</u>

vi. Fixed Assets

Equipment costing less than £25,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its useful life as follows:

Computer equipment	- 4 years
Equipment acquired for specific research projects (generally 3 years)	- project life
Other equipment	- 8 years

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected life of the equipment. The equipment capitalised

NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA MEDICAL SCHOOL Contd.

in this statement is solely acquired with funding made available from the HE Community Chest and the equipment is jointly owned by the two Universities. The principal items are for telematics.

vii. *Debtors*

	2005	2004
	£'000	£'000
Debtors	1,285	786
Prepayments and accrued income	1,634	1,978
Due from NHS partners	775	1,333
Due from The Exeter University Foundation	—	237
	3,694	4,334

viii. *Cash at Bank and In Hand*

	2005	2004
	£'000	£'000
Held by:		
University of Exeter	4,177	3,165
University of Plymouth	976	71
University of Plymouth Peninsula Medical School	152	6
	5,305	3,242

These balances are held under the agreed management arrangements. The University of Plymouth Peninsula Medical School account facilitates payments to suppliers whilst the balances held by the University of Exeter and the University of Plymouth are held in short-term deposits.

ix. *Creditors: Amounts falling due within one year*

	2005	2004
	£'000	£'000
Trade creditors	347	137
Other creditors	10	19
Due to partner universities	552	896
Deferred income:		
HEFCE recurrent teaching grant	2,558	1,850
SIFT income received in advance	—	1,038
NHS capital funding received in advance	265	—
Accruals and other deferred income	2,849	2,793
	6,581	6,733



NOTES TO THE ACCOUNTS

NOTE 37 PENINSULA MEDICAL SCHOOL Contd.

x. Reserves

	2005	2004
	£'000	£'000
Opening balance	860	806
Surplus for the year	1,569	54
	<hr/>	<hr/>
Closing balance	2,429	860
	<hr/>	<hr/>

xi. Expenditure within the NHS

During the year ended 31 July 2005 the following expenditure relating to PMS took place within the NHS:

	2005	2004
	£'000	£'000
	6,718	5,842
	<hr/>	<hr/>



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