

UNIVERSITY

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Report of the Treasurer	1	Printed copies of the Annual Review and the Financial Statements are available from: Design and Publications Office University of Exeter Northcote House The Queen's Drive Exeter EX4 4QJ  Tel: (01392) 263140 Fax: (01392) 264074 E-mail: M.Williams@exeter.ac.uk  The Financial Statements are also on the World Wide Web at <a href="http://www.exeter.ac.uk/admin/finance/accounts.pdf">www.exeter.ac.uk/admin/finance/accounts.pdf</a>  Designed and typeset by the Design and Publications Office Printed by Brightsea Press, Exeter
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three principal NHS Trusts in the South-West Peninsula who deliver clinical training. All of the income received by the Universities is remitted to a Community Chest from which expenditure (processed by either University on behalf of the School) is reimbursed. The Income and Expenditure Account and Balance Sheet of the Community Chest are reported as Note 37 to the Financial Statements on pages 43 to 47. The Higher Education Funding Council has separately funded each

Student numbers for 2003/04 amounted to 11,278 full time equivalents (2002/03: 10,712) giving rise to year-on-year increases in income from full-time home students of 3.3% and from international students of 24.2%. Income from research grants and contracts increased by 10.7% to £13.8m; this is an encouraging performance in an area of activity that the University is looking to develop further. Revenue from residences, catering and conferences increased by 8.1% a sound performance in the management of occupancies in the student residences, the provision of retail services and the management of conferences and retail functions. Other income, excluding that from residence activities increased by 34.1% to £11.6m primarily as a result of the receipt of increased external grants, NHS funding in connection with the Peninsula Medical School and other services rendered to UK central government, local authorities, health and hospital authorities.

Expenditure, excluding depreciation, increased by £13.5m, some 13.8% over 2002/03. The two significant contributors to that increase were:

1. Payroll costs which increased by £10.9m, almost 18.0%, reflecting the development of the Peninsula Medical School and the Combined Universities in Cornwall as well as investment in academic and other staff, the cost of annual pay awards which continued to exceed the Government's allowance in the grant settlements from the funding bodies and increased contributions to the University of Exeter Retirement Benefits Scheme; and
2. The staff restructuring at the Camborne School of Mines, prior to its relocation to the new campus at Tremough in Cornwall, which cost £0.6m.

#### EXCEPTIONAL ITEM

During the year the NatWest Bank (following discussions initiated by the Inland Revenue) exercised its option to terminate a loan arrangement entered into with the University in 1997. The Accreting Preference Share (APS) arrangement had been intended to run for twenty-five years and the early termination resulted in additional costs of £2.6m representing the further sums required to repurchase the shares from the bank earlier than originally planned. However, the University had put

fenced within the residences accounts.

Authorised and contracted capital commitments at the year-end amounted to £15.4m whilst those authorised but not contracted amounted to £42.6m. Major schemes in these commitments are continuing expenditure on the new campus in Cornwall and completion of the student residences refurbishment scheme in Exeter.

## INVESTMENTS

Investments performed satisfactorily during the year in relation to the targets that were set for the University's investment managers. The University's total endowment asset investments have, after the inclusion of capital gains, retention of income received and a withdrawal of £0.5m to fund related expenditure in the year, increased from £9.8m to £10.6m. A full breakdown of the changes is given in notes 13 and 19.

## REPORT OF THE TREASURER

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advantage over its competitors. This strategy was inherited by the present Vice Chancellor and welcomed enthusiastically by him. The senior management team shares his analysis of the challenges facing the University and supports the actions he believes to be vital to satisfying an increasingly discerning and courted student population in an environment in which all income will be hard earned. The key to success is identified as the development of an entrepreneurial university with the following characteristics:

- investment and research led
- developing an environment of the quality necessary to attract the best research graduate and undergraduate students
- international in outlook with strong research and teaching collaborations with appropriate partners abroad
- autonomy conferred through sound governance strong management and diverse income streams permitting less reliance on the State
- embedded in the local community
- socially inclusive, and
- tolerant, humane and liberal minded.

An intensive examination of the performance of all University activities over a period of many months reveals a number of schools and subjects which have relied, and are relying, on subsidies from other schools and subjects to survive. Where corrective action is seen by the University's management to be possible, it is being taken; where it is not, plans for closure have been submitted to both Council and Senate which have approved them. The University's bankers have been approached and have pledged their support.

### **SUMMARY AND CONCLUSIONS**

The Financial Statements for 2003/04 reflect significant real terms growth in ongoing activities at the University and an unprecedented performance in the execution of new capital development and investment.

The Peninsula Medical School continued to grow successfully in its second year of operation and since 31 July major capital developments in Cornwall, including the provision of the main academic and other buildings on the new campus site at Tremough and the

development of 500 student residences, have been completed on budget and on time; a major achievement.

On the other hand, the University has identified as necessary, and received approval and support for, the

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-

The Audit Committee meets four times a year (five in 2003/04) 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 three times each academic year, much of its detailed work is initially handled by committees, in particular the Strategy, Performance and Resources Committee (which from August 2004 replaced the former Planning and Resources Committee and Finance 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





## CORPORATE GOVERNANCE STATEMENT

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- c) The University has established the 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 partner, 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.

During 2003/04 a new budgeting process was introduced following the development of a new approach to resource allocation which identifies the profitability of individual budget units within the University. The budgeting process emanates from outputs of the new resource allocation model and culminates in a proposed budget which is reported to (a new) Strategy, Performance and Resources Committee for approval. New management accounting arrangements have been developed to complement the revised approach to financial control; the outputs are reported to Strategy, Performance and Resources Committee and to the Vice-Chancellor's Executive Group and will include detailed cash flow information as well as traditional budgetary control reports.

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.

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 for Further and Higher Education (SORP) and other relevant accounting and financial reporting standards. In addition, within the







**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT**  
for the Year ended 31 July 2004

<b>INCOME</b>	<b>Note</b>	<b>2003/04 £'000</b>	<b>Restated 2002/03 £'000</b>
Funding council grants	1	44,242	42,069
Tuition fees and education contracts	2	25,147	22,856
Research grants and contracts	3	13,808	12,472
Other income (including share of joint venture)	4	31,532	27,084
Endowment and investment income	5	907	1,167
Other financial income	28	—	300
		<hr/>	<hr/>
<b>Total income</b>		115,636	105,948
Less: Share of income from joint venture		(66)	(21)
		<hr/>	<hr/>
<b>Net Income</b>		115,570	105,927
		<hr/>	<hr/>
<b>EXPENDITURE</b>			
Staff costs, including exceptional item	6	71,583	60,689
Other operating expenses	7	39,207	36,221
Depreciation	7	5,640	5,763
Interest payable	8	1,589	1,857
		<hr/>	<hr/>
<b>Total expenditure</b>		118,019	104,530
		<hr/>	<hr/>
Group operating (deficit)/surplus on continuing operations		(2,449)	1,397
Share of operating profit in joint venture		—	—
(Deficit)/surplus on continuing operations after depreciation of fixed assets at valuation		<hr/> (2,449)	<hr/> 1,397
Exceptional item (Charge) arising on re-financing	9	(2,654)	—
		<hr/>	<hr/>
<b>(Deficit)/surplus on continuing operations after depreciation of tangible fixed assets at valuation and exceptional item</b>	10	(5,103)	1,397
		<hr/>	<hr/>

The income and expenditure account is in respect of continuing activities.



	Note	Group		University	
		Restated		Restated	
		2004 £'000	2003 £'000	2004 £'000	2003 £'000
<b>Fixed assets</b>					
Tangible assets	11	222,450	189,048	222,464	189,061
Investments	12	4,961	4,693	18,421	6,693
Investment Assets – Joint Ventures	12				
Share of gross assets		11,304	2,398	—	—
Share of gross liabilities		(11,304)	(2,398)	—	—
		227,411	193,741	240,885	195,754
<b>Endowment assets</b>	13	10,585	9,772	10,585	9,772
<b>Current assets</b>					
Stock		867	906	867	906
Debtors	14	16,158	16,951	18,255	19,115
Investments		2,000	—	2,000	—
Cash at bank and in hand		8,865	9,140	8,792	9,122
		27,890	26,997	29,914	29,143
<b>Creditors: amounts falling due within one year</b>	15	(27,354)	(20,195)	(27,850)	(20,628)
<b>Net current assets</b>		536	6,802	2,064	8,515
<b>Total assets less current liabilities</b>		238,532	210,315	253,534	238,532

**CONSOLIDATED CASH FLOW STATEMENT**  
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	Note	2003/04 £'000	2002/03 £'000
<b>CASH INFLOW FROM OPERATING ACTIVITIES</b>	22	3,919	2,105
Returns on investments and servicing of finance	23	(33)	(862)
Taxation		—	—
Capital expenditure and financial investment	24	(19,503)	(6,483)
Management of liquid resources	25	(2,000)	—
Financing	26	17,409	3,597
(Decrease) in cash in the year	27	<u>(208)</u>	<u>(1,643)</u>
 <b>RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT</b>			
		2003/04 £'000	Restated 2002/03 £'000
(Decrease) in cash in the year	27	(208)	(1,643)
Cash (inflow) from new secured loans	26	(38,535)	(4,533)
Cash outflow from repayment of loans	26	21,126	834
Other movements from creditors due in more than one year	27	(721)	33
FRS 17 – Pension Liability	27	(1,500)	(9,000)
Cash outflow from liquid resources	25	2,000	—
Movement in net debt in the year		<u>(17,838)</u>	<u>(14,309)</u>
Net Debt at 1 August		<u>(32,256)</u>	<u>(17,947)</u>
Net Debt at 31 July	27	<u>(50,094)</u>	<u>(32,256)</u>





# STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

## 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. At 31 July 2004 the University was meeting the financial covenants incorporated in loan agreements made with two major lenders (banks). However, in the early months of 2004/05 action has been necessary to ensure that future compliance can be maintained and loan obligations fulfilled. The University Council has approved these actions and the associated revised forecasts and cash flows. The accounts for 2003/04 have therefore been prepared on a going concern basis.

	The University of Exeter Guild of Students £'000	Exeter Enterprises Limited £'000
Share capital and reserves	237	60
(Loss)/Profit	(32)	3

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 2004 it made charitable disbursements to the University of £3.3m (2003: £1.1m) and had funds totalling £4.4m at that date (2003: £6.8m).

The 50% holding in the Tremough Development Vehicle Limited represents an interest on a long-term basis, which is jointly controlled with another party. 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. TDV has entered into a gift aid arrangement to distribute surpluses arising on its activities equally to the University and Falmouth College of Arts.

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

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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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 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 33-36.

### *e) Taxation*

No provision for taxation, deferred or otherwise, has been made in these accounts as the University is an exempt charity within the meaning of schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of section 506(1) of 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 suffered on its expenditure and this cost is included under the various related expenditure heads.

On adoption of FRS 15, the University adopted a policy to fully revalue land and buildings every five years and an interim valuation every 3 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 as 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).

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

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### *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.

**NOTE 1 FUNDING COUNCIL GRANTS**

	<b>2003/2004</b>			<b>2002/2003</b>
	<b>HEFCE</b>	<b>TTA</b>	<b>TOTAL</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Recurrent grant	36,349	2,936	39,285	36,486
Specific grants				
<u>HEFCE</u>				
Medical capital and equipment	416	—	416	1,751
Rewarding and developing staff in HE	1,465	—	1,465	975
Reach-out to business and the community	217	—	217	346
HE Innovations Fund	517	—	517	291
Excellence challenge	219	—	219	219
Combined Universities in Cornwall	264	—	264	177
Institutional learning and teaching strategies	205	—	205	160
Others	226	—	226	198
<u>TTA</u>				
Inset	—	(399)	(399)	668
Secondary subject shortage scheme	—	91	91	85
Rewarding and developing staff in HE	—	109	109	82
Partnership arrangements	—	40	40	31
Student Association Scheme	—	578	578	—
Others	—	47	47	30
Deferred capital grants released in the year				
Buildings (note 18)	706	—	706	406
Equipment (note 18)	256	—	256	164
	40,840	3,402	44,242	42,069

**NOTE 2 TUITION FEES AND EDUCATION CONTRACTS**

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Home/EU undergraduates: full-time	8,076	7,665
Home/EU undergraduates: part-time	422	369
Home/EU postgraduates: full-time	4,413	4,422
Home/EU postgraduates: part-time	1,272	937
International students	9,246	7,446
Non-credit bearing courses and other tuition fees	1,609	1,898
Research Training Support Grants	109	119
	25,147	22,856

## NOTES TO THE FINANCIAL STATEMENTS

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### NOTE 3 RESEARCH GRANTS AND CONTRACTS

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Research councils	6,206	5,442
UK based charities	2,288	2,153
UK central government, local authorities, health & hospital authorities	3,406	3,060
UK industry, commerce and public corporations	718	774
European Union government and other bodies	939	842
Other grants and contracts	251	201
	<hr/>	<hr/>
	13,808	12,472
	<hr/>	<hr/>

Included above are deferred capital grants released in the year of £439k (2003: £424k)

### NOTE 4 OTHER INCOME

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
Residences, catering and conferences	19,941	18,450
Other Services Rendered		
Validation fees	153	163
Teaching companies	194	227
UK central government, local authorities, health and hospital authorities	1,586	1,278
Others	820	438
Income from health and hospital authorities	1,591	1,020
Other Operating Income		
Other external grants	839	135
Conferences, summer schools, fair and degree days income	736	505
Donations and other fundraising	594	654
Erasmus	450	189
Sports and swimming pools	424	354
Externally recharged staff time	314	329
Supplies and services to Exeter Enterprises Limited	238	119
Rental income and room hire	211	209
Peninsula Medical School	654	510
Release of deferred capital grants	241	85
Other income	2,546	2,419
	<hr/>	<hr/>
	31,532	27,084
	<hr/>	<hr/>

**NOTE 5 ENDOWMENT AND INVESTMENT INCOME**

<b>2003/04</b>	<b>2002/2003</b>
<b>£'000</b>	<b>£'000</b>

a new Vice-Chancellor on 1 October 2002.

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

	£'000	£'000
Payments to USS for enhanced pension benefits	21	—

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:

	2003/04 £'000	2002/2003 £'000
£70,000 - £79,999	4	4
£80,000 - £89,999	1	2
£90,000 - £99,999	1	2
£120,000 - £129,999	—	1
£130,000 - £139,999	1	—
£140,000 - £149,999	—	2
£170,000 - £179,999	1	—

#### NOTE 7 OTHER OPERATING EXPENSES

	2003/04 £'000	2002/2003 £'000
Residences, catering and conferences	10,202	8,967
Laboratory equipment and consumables	2,442	2,405
IT hardware, software and licences	2,941	2,762
Other equipment	679	728
Books and periodicals	1,630	1,836
Fellowships, scholarships and prizes	2,783	2,423
Field courses and other student support	2,816	2,082
Repairs and general maintenance	2,503	1,708
Heat, light, water and power	1,176	946
Rents and rates	417	326
Insurances	390	300
Non-contract staff and external examiners	2,712	4,416
Administrative costs including postage and telephones	1,828	1,528
Travel, accommodation, subsistence and hospitality	3,134	2,343
Publicity, publications and student recruitment	1,097	1,010
Legal, professional and consultancy fees	1,115	674
Auditor's remuneration	41	29
Auditor's remuneration in respect of non-audit services*	15	13
Other expenses	1,286	1,725
	39,207	36,221



\* In 2003/04: £nil (2002/03: £164k) was paid to the auditor for professional advice in connection with the Birks and Duryard capital project to redevelop student residences and was added to the capital cost of that scheme and not charged as a revenue expense.

**ANALYSIS OF 2003/04 EXPENDITURE BY ACTIVITY**

	<b>Staff Costs £'000</b>	<b>Other Operating Expenses £'000</b>	<b>Depre- ciation £'000</b>	<b>Interest Payable £'000</b>	<b>Total 2003/04 £'000</b>	<b>Total 2002/03 £'000</b>
Academic schools	39,780	10,120	412	—	50,312	44,105
Academic services						

The depreciation charge has been funded by:

	<b>£'000</b>
Deferred capital grants released – buildings (note 18)	922
Deferred capital grants released – equipment (note 18)	720
Revaluation reserve released (note 20)	2,175
General income	1,823
	5,640

**NOTE 8 INTEREST PAYABLE**

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
<b>On bank loans, overdrafts and other loans:</b>		
Repayable within 5 years, by instalments	9	185
Repayable wholly or partly in more than 5 years	1,580	1,672
<b>Total</b>	<b>1,589</b>	<b>1,857</b>

In addition interest payable in the year amounting to £650k was capitalised. It related to borrowings in respect of the development of new student residences, which were not brought into use until 2004-05.

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

On 28 February 1997 a wholly owned subsidiary company of the University, Exeter Development Capital Limited issued £11.460m Accreting Preference Shares (APS) to a subsidiary of Nat West Bank plc. The funds received of £11.460m were loaned to the University. (Under Financial Reporting Standard 4, 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 the Bank exercised its option and 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 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)/SURPLUS ON CONTINUING OPERATIONS FOR THE YEAR**

The (deficit)/surplus on continuing operations for the year is made up as follows:

	<b>2003/04</b>	<b>2002/2003</b>
	<b>£'000</b>	<b>£'000</b>
University's (deficit)/ surplus for the year	(5,104)	1,458
Surplus/(deficit) generated by the subsidiary undertakings and transferred to the University under a deed of covenant	1	(61)
<b>Total</b>	<b>(5,103)</b>	<b>1,397</b>

**NOTE 11 TANGIBLE FIXED ASSETS**

<b>Group</b>	<b>Land and Buildings</b>		<b>Equipment</b>	<b>Total</b>
	<b>Freehold</b>	<b>Long Leasehold</b>		
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost or Valuation</b>				
At 1 August 2003	187,263	8,481	9,420	205,164
Additions	27,709	11,008	546	39,263
Disposals	(221)	—	(60)	(281)
At 31 July 2004	214,751	19,489	9,906	244,146
<b>Depreciation</b>				
At 1 August 2003	8,976	258	6,882	16,116
Charge for the Year	4,488	24	1,128	5,640
Disposals	—	—	(60)	(60)
At 31 July 2003	13,464	282	7,950	21,696
<b>Net Book Value</b>				
At 31 July 2004	201,287	19,207	1,956	222,450
At 1 August 2003	178,287	8,223	2,538	189,048
Inherited	—	213	—	213
Financed by capital grant	124,623	18,994	1,245	144,862
Other	76,664	—	711	77,375
<b>Net Book Value</b>				
<b>At 31 July 2004</b>	<b>201,287</b>	<b>19,207</b>	<b>1,956</b>	<b>222,450</b>

## NOTES TO THE FINANCIAL STATEMENTS

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- 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 £144m have been financed, in whole or in part, by exchequer funds. Should these particular buildings be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the conditions given its Financial Memorandum with the Higher Education Funding Council for England.
- c) At 31 July 2004 freehold and leasehold land and buildings included £47.3m in respect of buildings under construction.

University	Land and Buildings		Equipment	Total
	Freehold	Long Leasehold		
	£'000	£'000	£'000	£'000
<b>Cost or Valuation</b>				
At 1 August 2003	187,276	8,481	9,420	205,177
Additions	27,709	11,008	547	39,264
Disposals	(221)	—	(60)	(281)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2004	214,764	19,489	9,907	244,160
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>				
At 1 August 2003	8,976	258	6,882	16,116
Charge for the Year	4,488	24	1,128	5,640
Disposals	—	—	(60)	(60)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 July 2003	13,464	282	7,950	21,696
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net Book Value</b>				
At 31 July 2004	201,300	19,207	1,957	222,464
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 August 2003	178,300	8,223	2,538	189,061
	<hr/>	<hr/>	<hr/>	<hr/>



**NOTE 11B LAND AND BUILDINGS**

	<b>Tenure</b>	<b>Main Use</b>
Streatham Campus	Freehold	Academic Administration Sport and recreation Social Residential
St Luke's Campus	Freehold	Academic Administration Sport and recreation Social Residential
Camborne School of Mines – Campus	Long Leasehold	Academic Administration Sport and recreation Social
Camborne School of Mines – Mines	Long Leasehold	Academic
Birks Halls	Freehold	Residential
Bonhay House	Freehold	Residential
Brunel Close and Kingdom Mews	Freehold	Residential
Crossmead	Freehold	Conference centre

**NOTE 12 INVESTMENTS**

	<b>Group</b>		<b>University</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fine art collection	1,613	300	1,613	300
Library special collection	2,101	2,101	2,101	2,101
Investment in quoted stock	1,208	1,125	1,208	1,125
Investment in long term deposit	—	1,128	—	1,128
Investment in associated and subsidiary companies	60	60	13,520	2,060
Investment in other unlisted companies	39	39	39	39
	5,021	4,753	18,481	6,753
Less: Provision for reduction in value of Exeter Enterprises shares	(60)	(60)	(60)	(60)
	4,961	4,693	18,421	6,693

The University's fine art collections of paintings, furniture, silverware and ceramics were professionally valued during the year ended 31 July 2001 by Messrs. Bearne's, Auctioneers and Valuers of Fine Art, on an open market value basis and for insurance purposes. During the current year ended 31 July 2004 Messrs. Sotheby's valued the University's collection of sculptures, which have now been included in the fine art valuation.

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.

The investments in associated and subsidiary companies shares comprises the following:

- Dartvale Limited
  - 2,000,002 Ordinary £1 Shares fully paid (at cost)
- Exeter Development Capital Limited
  - 2 Ordinary £1 Shares fully paid (at cost)
  - 11,460,000 Preference shares of £1 each fully paid (at cost)
- Exeter Enterprises Limited
  - 60,110 Ordinary £1 Shares fully paid (at cost)
- Tremough Development Vehicle Limited
  - 50 Ordinary £1 Shares fully paid at cost

During the year ended 31 July 2002 the University took up 50% of the issued share capital of 100 £1 Ordinary shares in the Tremough Development Vehicle Limited. This joint venture company with the Falmouth College of Arts has been established to provide the construction of the main campus for the Combined Universities in Cornwall project to be based at Tremough in Penryn. It will also own and run student residences being built on that site.

## NOTES TO THE FINANCIAL STATEMENTS

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The investment in other unlisted shares comprises the following investments:

Update Software Limited
5 Ordinary £1 Shares fully paid (at cost)
CVCP Properties Plc
37,355 Ordinary £1 Shares fully paid (at cost)
CSM (WA) Limited
1,750 Ordinary £1 Shares fully paid (at cost)

The market value of long-term investments excludes these unlisted shares.

All companies are registered in England and Wales and operate in the UK.

The University holds the entire ordinary share capital of Dartvale Limited, Exeter Development Capital Limited and Exeter Enterprises Limited. The results of Exeter Enterprises Limited have not been consolidated with those of the University on the grounds that they are not material to the University results.

### NOTE 13 ENDOWMENT ASSET INVESTMENTS – Group and University

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Balance brought forward	9,772	8,981
Additions – new funds received	10	2
Additions – interest and dividends re-invested	371	389
Disposals – capital withdrawn	(161)	(222)
Disposals – income withdrawn	(299)	(340)
Appreciation/(depreciation) on disposals/revaluation	892	962
	<u>10,585</u>	<u>9,772</u>
The investments comprise:		
Fixed interest stocks	950	1,018
Equities	9,635	8,711
Bank balances	—	43
	<u>10,585</u>	<u>9,772</u>

### NOTE 14 DEBTORS

	<b>Group</b>		<b>University</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Amounts falling due within one year:				
Debtors	9,690	10,985	9,020	10,362
Amounts owed by group undertakings:				
Subsidiary companies	—	—	2,767	2,788
Prepayments and accrued income	6,468	5,966	6,468	5,965
	<u>16,158</u>	<u>16,951</u>	<u>18,255</u>	<u>19,115</u>



**NOTE 15 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR**

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 18 DEFERRED CAPITAL GRANTS - Group and University

	<b>Funding Council £'000</b>	<b>Other Grants £'000</b>	<b>Total £'000</b>
<b>At 1 August 2003</b>			
Land and buildings	22,759	9,741	32,500
Equipment	1,850	459	2,309
	<u>24,609</u>	<u>10,200</u>	<u>34,809</u>
Grants receivable			
Land and buildings	2,782	12,473	15,255
Equipment	(465)	121	(344)
	<u>2,317</u>	<u>12,594</u>	<u>14,911</u>
Released to Income and Expenditure Account			
Land and buildings	(706)	(216)	(922)
Equipment	(256)	(464)	(720)
	<u>(962)</u>	<u>(680)</u>	<u>(1,642)</u>
<b>At 31 July 2004</b>			
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>

### NOTE 19 ENDOWMENTS – Group and University Specific Endowments

	<b>2004 £'000</b>	<b>2003 £'000</b>
<b>At 1 August 2003</b>		
Additions	9,772	8,981
Disposals	10	2
Disposals	(51)	—
Appreciation of endowment asset investments	892	962
Income for the year	371	389
Transferred to income and expenditure account	(409)	(562)
	<u>10,585</u>	<u>9,772</u>
<b>At 31 July 2004</b>		
<b>Representing:</b>		
Trustee Securities Pool	1,779	1,617
Institute for Arab and Islamic Studies	8,014	7,421
Other	792	734
	<u>10,585</u>	<u>9,772</u>

Additions are new endowments. Income for the year includes investment interest and dividends received.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 20 REVALUATION RESERVE

#### Group and University

	Freehold Land & Buildings £'000	Fixed Asset Investments £'000	Total £'000
<b>At 1 August 2003</b>	96,996	2,626	99,622
Revaluation in the year			
Fixed asset investments – quoted shares	—	83	83
Fine Art	—	1,313	1,313
Transfer from revaluation reserve to general reserve in respect of:			
Depreciation on re-valued assets	(2,175)	—	(2,175)
	94,821	4,022	98,843

The revaluation movement relating to fine art is a result of the University obtaining a valuation of its collection of sculptures (see note 12).

### NOTE 21 INCOME AND EXPENDITURE ACCOUNT

#### 2003-04

##### Consolidated

	Restated Balance at 1 August 2003 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2004 £'000
Capital reserve	18,496	—	—	1,527	20,023
Committed balances	14,500	—	—	(1,259)	13,241
Specific reserves	1,320	—	—	767	2,087
Residences equalisation	(3,557)	—	—	357	(3,200)
Financial restructuring	—	(2,654)	—	—	(2,654)
Pension liability	(9,800)	(300)	—	(1,200)	(11,300)
General reserves	5,412	(2,149)	2,175	(1,391)	4,047
	26,371	(5,103)	2,175	(1,199)	22,244

##### University

	Restated Balance at 1 August 2003 £'000	Deficit for the year £'000	Revaluation Reserve £'000	Other Movements £'000	Balance at 31 July 2004 £'000
Capital reserve	18,496	—	—	1,527	20,023
Committed balances	14,500	—	—	(1,259)	13,241
Specific reserves	1,320	—	—	767	2,087
Residences equalisation	(3,557)	—	—	357	(3,200)
Financial restructuring	—	(2,654)	—	—	(2,654)
Pension liability	(9,800)	(300)	—	(1,200)	(11,300)
General reserves	5,429	(2,150)	2,175	(1,391)	4,063
	26,388	(5,104)	2,175	(1,199)	22,260

**2002-03  
Consolidated**

	<b>Balance at 1 August 2002 £'000</b>	<b>Prior year Adjust- ment FRS 17 £'000</b>	<b>Restated Balance at 1 August 2002 £'000</b>	<b>Surplus for the year £'000</b>	<b>Reval- uation Reserve Release £'000</b>	<b>Other Move- ments £'000</b>	<b>Balance at 31 July 2003 £'000</b>
Capital reserve	15,884	—	15,884	—	—	2,612	18,496

## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 22 RECONCILIATION OF CONSOLIDATED OPERATING (DEFICIT)/SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
(Deficit)/surplus before tax on continuing operations after depreciation of assets at valuation	(5,103)	1,397
FRS 17 – Pension Adjustment	300	(200)
Depreciation	5,640	5,763
Deferred capital grants released to income (note 18)	(1,642)	(1,161)
Endowment and investment income (note 5)	(907)	(1,167)
Interest payable (note 8)	1,589	1,857
Decrease in stock	39	8
Decrease/(Increase) in debtors	1,308	(8,497)
Increase in creditors	2,695	4,105
	3,919	2,105
Net cash inflow from operating activities	3,919	2,105

### NOTE 23 RETURNS ON INVESTMENTS AND SERVICING OF FINANCE

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Income from endowments	378	389
Income from short term investments	447	480
Other interest received	45	124
Interest paid	(903)	(1,855)
	(33)	(862)
Net cash outflow from returns on investments and servicing of finance	(33)	(862)

### NOTE 24 CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Purchase of tangible assets	(35,402)	(21,928)
Payments to acquire long term investments	(121)	(226)
Payments to acquire endowment asset investments	(315)	(468)
	(35,838)	(22,622)
Total fixed and endowment assets acquired	(35,838)	(22,622)
Receipts from the sale of tangible assets	220	—
Receipts from the sale of long term investments	1,249	—
Receipts from the sale of endowment assets	460	562
Deferred capital grants received	14,396	15,575
Endowments received	10	2
	(19,503)	(6,483)
Net cash outflow from capital expenditure and financial investment	(19,503)	(6,483)



**NOTE 25 MANAGEMENT OF LIQUID RESOURCES**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Withdrawals from deposit	(2,000)	—
Net cash (outflow) from management of liquid resources	(2,000)	—

**NOTE 26 FINANCING**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Debt due beyond one year:		
New secured loan repayable by 2016	—	499
New secured loan repayable by 2029	21,701	—
New secured loan repayable by 2030	14,134	4,034
New secured loan repayable by 2032	2,700	—
Repayment of amounts borrowed	(21,126)	(936)
Net cash inflow/(outflow) from financing	17,409	3,597

**NOTE 27 ANALYSIS OF CHANGES IN NET DEBT**

	<b>Restated at</b>	<b>Cash</b>	<b>Other</b>	<b>At</b>
	<b>1 August</b>	<b>Flows</b>	<b>Changes</b>	<b>31 July</b>
	<b>2003</b>			<b>2004</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash in hand and at bank	9,140	(275)	—	8,865
Endowment asset investments	(493)	67	—	(426)
Overdrafts	—	—	—	—
	8,647	(208)	—	8,439
Debt due within 1 year	(1,163)	(588)	—	(1,751)
Debt due after 1 year	(29,940)	(16,821)	(721)	(47,482)
FRS 17 - Pension Liability	(9,800)	—	(1,500)	(11,300)
Current asset investments	—	2,000	—	2,000
Total	(32,256)	(15,617)	(2,221)	(50,094)

## NOTE 28 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 (S2P). 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:

	<b>USS</b>	<b>ERBS</b>
	31 March 2002	6 April 2003
Latest actuarial valuations		
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 (S2P). 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.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. The next formal valuation is due as at 31 March 2005 when the above rates will be reviewed.

The total pension cost for the University was £5,033,000 (2003: £4,575,000). 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 6% was applied in 2002/03 and this was increased to 10% from 1 August 2003. The rate was increased to 16% from 1 August 2004. The Actuary updated the figures as at 31 July 2003 and as at 31 July 2004. 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:

	2004	2003
	%	%
Rate of increase in salaries	4.4	4.1
Rate of increase in pension payments	2.9	2.6
Discount rate	5.7	5.5
Inflation assumption	2.9	2.6

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

	<b>Long-term rate of return expected at 31 July 2004</b>	<b>31 July 2004</b>	<b>Long-term rate of return expected at 31 July 2003</b>	<b>31 July 2003</b>
	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
Equities	7.00	31.0	7.00	28.7
Bonds	5.00	14.8	5.00	15.1
Cash/Other	5.00	0.1	4.50	0.4
	6.35	45.9	6.30	44.2
Present value of scheme liabilities		(57.2)		(54.0)
Pension (liability)		(11.3)		(9.8)





## NOTES TO THE FINANCIAL STATEMENTS

### Income and Expenditure Account

#### Analysis of the amount charged to the income and expenditure account

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Current service cost	1.4	0.6
Past service cost	—	—
	1.4	0.6
Analysis of amount credited to other finance income		
Expected return on pension scheme assets	(3.0)	(2.9)
Interest on pension scheme liabilities	3.0	2.6
	0.0	(0.3)

### Statement of Recognised Gains and Losses (STRGL)

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Actual return less expected return on scheme assets	(0.3)	(0.6)
Experience (losses) on the scheme liabilities	(0.2)	(3.3)
Changes in financial and demographic assumptions underlying the present value of scheme liabilities	(0.7)	(5.3)
	(1.2)	(9.2)

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

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
(Deficit) on scheme at 1 August	(9.8)	(0.8)
Movements in the year:		
Current service cost	(1.4)	(0.7)
Contributions paid	1.1	0.6
Past services costs	0.0	0.0
Other finance income	(0.0)	0.3
Actuarial (losses)	(1.2)	(9.2)
	(11.3)	(9.8)

(iii) Pension Cost

The total pension cost for the University was:

	<b>2004</b>	<b>2003</b>
	<b>£m</b>	<b>£m</b>
Contributions to USS - regular cost	5,033	4,575
Current service cost - ERBS	1,396	715
Contributions to other pension schemes	34	22
	6,463	5,312
Supplementary pension costs	39	44
Early retirement pension enhancement costs	44	222
Total pension cost	6,546	5,578

**NOTE 29 CAPITAL COMMITMENTS - Group and University**

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Commitments contracted at 31 July	15,381	36,919
Authorised but not contracted at 31 July	42,550	30,423
	57,931	67,342

During the year expenditure was incurred on academic buildings, student accommodation, conference facilities and student amenity buildings. An element of the expenditure on these facilities has been funded temporarily out of working balances and external loans as follows:

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Academic buildings	1,060	71
Student accommodation and conference facilities	13,273	7,294
Sports facilities	1,281	—
Amenity and other buildings	89	—
	15,703	7,365

At 31 July 2004 total consolidated capital expenditure temporarily funded amounted to £59.6m.

At 31 July 2004 the University had commenced a non-residential capital programme of investment in the physical infrastructure for academic, non-academic and student services. The programme, costing an estimated £33m is to be completed during 2006/07. Funding of £15m will come from identified sources and a loan of up to £20m, which includes an element of funding to allow for contingencies, has been negotiated with the Royal Bank of Scotland.

**NOTE 30 CONTINGENT LIABILITIES**

The University was not aware of any contingent liabilities at 31 July 2004.

**NOTE 31 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.

At 31 July 2004 the University held a 50% shareholding in Tremough Development Vehicle Limited. (TDV). It is a joint venture company between the University and Falmouth College of Arts (FCA) and was established to develop

**NOTE 33 ACCESS FUNDS**

Summary of transactions for the year ended 31 July 2004

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Balance unspent at 1 August 2003	29	21
Funding Council grants	482	518
Interest earned	3	2
	514	541
Disbursed to students	(472)	(511)
Audit fees	—	—
Administration costs	(3)	(1)
Balance unspent at 31 July 2004	39	29

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.

**NOTE 34 ITT TRAINING BURSARIES**

Summary of transactions for the year ended 31 July 2004

	<b>2004</b>	<b>2003</b>
	<b>£'000</b>	<b>£'000</b>
Balance brought forward at 1 August 2003	212	152
TTA grants received	3,538	2,914
Total TTA training bursary funding available for the year	3,750	3,066
Disbursements to students	(3,659)	(2,854)
Funds to be recovered at 31 July 2004	91	212

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.



## NOTES TO THE FINANCIAL STATEMENTS

### NOTE 35 ITT MINORITY ETHNIC RECRUITMENT (MER)

Summary of transactions for the year ended 31 July 2004

	<b>2004 £'000</b>
Basic and Challenge funds received	8
Recruitment funds received	2
	10
Total Minority Ethnic Recruitment funding available for the year	10
Disbursements to students	(10)
	—
Funds to be recovered at 31 July 2004	—

The funds are available solely for students; the University acts only as paying agent.

The MER are therefore excluded from the Income and Expenditure Account.

### NOTE 36 ITT STUDENT ASSOCIATES SCHEME (SAS)

Summary of transactions for the year ended 31 July 2004

	<b>2004 £'000</b>
Funds received	368
Disbursements to students	(368)
	—
Funds to be recovered at 31 July 2004	—

The funds are available solely for students; the University acts only as paying agent.

The SAS funds are therefore excluded from the Income and Expenditure Account.

### NOTE 37

#### PENINSULA MEDICAL SCHOOL – NOTE TO THE FINANCIAL ACCOUNTS 2003/04

#### INCOME AND EXPENDITURE ACCOUNT of the HE Community Chest for the year ended 31 July 2004

		University of Exeter 2002/2003 £000	University of Plymouth 2002/2003 £000	Total 2002/2003 £000	Total 2001/2002 £000
<b>INCOME</b>	<b>Note</b>				
Funding Council grants	3	2,169	2,170	4,339	5,008
Tuition fees and education					
contracts		283	282	565	340
University research support		134	134	268	360
NHS – SIFT funding	4	1,590	1,591	3,181	2,040
Research grants and contracts		2,338	2,337	4,675	4,754
Other income	5	751	751	1,502	1,238
Endowment and investment					
income		35	35	70	50
		7,300	7,300	14,600	13,790
<b>Total income</b>		<b>7,300</b>	<b>7,300</b>	<b>14,600</b>	<b>13,790</b>

**EXPENDITURE**

Staff costs		4,629	4,629	9,258	7,393
Other operating expenses		2,591	2,591	5,182	5,585
Depreciation	6	53	53	106	6
<b>Total expenditure</b>		<b>7,273</b>	<b>7,273</b>	<b>14,546</b>	<b>12,984</b>
<b>Surplus on continuing operations</b>		<b>27</b>	<b>27</b>	<b>54</b>	<b>806</b>

**BALANCE SHEET of the HE Community Chest as at 31 July 2004**

	<b>Note</b>	<b>2004 £000</b>	<b>2003 £000</b>
<b>Fixed assets</b>			
Tangible assets	6	457	382
<b>Current assets</b>			
Debtors	7	4,334	4,937
Cash at bank and in hand	8	3,242	512
		7,576	5,449
<b>Creditors: amounts falling due within one year</b>	9	(6,733)	(4,665)
<b>Net current assets</b>		843	784
<b>Total assets less current liabilities</b>		1,300	1,166
<b>NET ASSETS</b>		1,300	1,166
<b>Deferred capital grants</b>		440	360
<b>Reserves</b>	10	860	806
<b>TOTAL</b>		1,300	1,166

**Explanatory Notes**1. *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 Healthcare Trust, Plymouth Hospitals NHS Tr



## NOTES TO THE FINANCIAL STATEMENTS

All income received in respect of PMS by each University is transferred to a "HE Community Chest", managed initially by the University of Exeter. Expenditure incurred by each University on behalf of PMS is reimbursed from the "HE Community Chest". Under the administrative arrangements for the School it has been agreed that whilst the accounts of each University will formally incorporate only part of PMS activities, each will carry an identical note, which sets out the total financial position of the "HE Community Chest".

### 2. *Audit arrangements*

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. These transactions are part of the audited financial statements of each University for the year ended 31 July 2004.

### 3. *Funding Council grants*

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Recurrent grant	3,141	1,486
Specific grants		
HEFCE medical capital grant	107	2,086
HEFCE equipment capital grant	724	1,416
Widening participation	124	20
Other	153	—
Deferred capital grants released in the year		
Equipment	90	—
<b>Total</b>	<b>4,339</b>	<b>5,008</b>

### 4. *NHS – Service Increment for Teaching (SIFT) Funding*

During the year ended 31 July 2004, £3,180,864 of SIFT funding was receivable to cover HE expenditure attributable to the NHS aspects of the Peninsula Medical School.

### 5. *Other Income*

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Other grant income	149	214
Other income	1,353	1,024
	<b>1,502</b>	<b>1,238</b>

"Other income" for the year ended 31 July 2003 included £285,990 transferred from the University of Plymouth and £100,067 transferred from the University of Exeter relating to activity prior to 1 August 2002. This activity took place within the Postgraduate areas that became part of PMS.

6 *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	- project life



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

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	137	122
Other creditors	19	8
Due to partner universities	896	71
Due to HEFCE re overpayment	—	478
Deferred income:		
HEFCE recurrent teaching Grant	1,850	1,074
Fees received in advance	—	160
SIFT income received in advance	1,038	—
Accruals and other deferred income	2,793	2,752
	<b>6,733</b>	<b>4,665</b>

10. *Reserves*

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Opening balance	806	—
Surplus for the year	54	806
Closing balance	860	806

11. *Expenditure within the NHS*

During the year ended 31 July 2004 the following expenditure relating to PMS took place within the NHS (this expenditure was not funded through the "HE Community Chest"):

	<b>2004</b>	<b>2003</b>
	<b>£000</b>	<b>£000</b>
Total spend	5,842	1,868





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