

FINANCIAL STATEMENTS

2003/04

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OFFICERS AND STAFF PRINCIPALLY CONCERNED WITH FINANCIAL MATTERS

Membership of Council as at 21st December 2004

Dr M Acar	J F Harper	Professor P H Roberts ^{3,5}
P S Blake	P J K Haslehurst ³	J Scott
J B C Blood ¹	N Honey ^{2,5}	J A M Strong ³
Dr R H Boissier ^{4,5}	Sir John Jennings	M C Tomlinson
Professor W R Bowman ³	R S M Kirkwood	Sir David Wallace ^{3,4,5}
Sir Bryan Carsberg ^{3,4,5}	Dr M Meskimmon	R Warren
G Chivers	M Moghal	R Wilson
P Davenport ¹	W M Moss ¹	Dr C S Woodruff
V Dhupa ⁴	J Mutton ³	A A Woods ^{2,3,4}
Professor M Gilbert	Professor R Parry-Jones	
Professor P Golding ⁵	S Proffitt ²	

Membership of Committees as at 21st December 2004

<i>Audit Committee¹</i>	<i>Resources & Planning Committee³</i>	<i>Remuneration Committee⁴</i>
<i>Treasurer's Committee²</i>		<i>Nominating Committee⁵</i>

Officers and Staff in Post as at 21st December 2004

Chair of Council	Sir Bryan Carsberg, MSc(Econ), LLd(Hon), ScD(Hon), DUniv(Hon), D Litt(Hon), MA(Hon), FCA, HonFIA Chairman, Advisory Council, MLL Telecom Limited Chairman, Pensions Compensation Board Director, Philip Allan Publishers Limited Director, RM plc Director, SVB (Holdings) plc
University Treasurer and Chair of Treasurer's Committee	A A Woods, DL, DUniv (Hon), FCA Deputy Chairman, Derbyshire Building Society A Deputy Lieutenant for the County of Derbyshire
Chair of Audit Committee	W M Moss Formerly Chairman, Loughborough Building Society Formerly Chairman, Towles plc
Vice-Chancellor and Designated Officeholder	Sir David Wallace, CBE, DL, BSc, PhD, DEng (Hon), DSc (Hon), FRS, FREng, FRSE, FInstP, MBCS, CEng, CPhys
Bursar and Finance Officer	H M Pearson, BA(Econ), LLB, ACIS

Providers of Financial Services

External Auditors	Deloitte & Touche LLP, Nottingham
Internal Auditors	KPMG, Nottingham
Bankers	Barclays Bank plc, Birmingham National Australia Bank Ltd, Leeds
Insurers	Universities Mutual Association Limited, London
Investment Managers	Morley Fund Management, London

Treasurer's Report and Financial Review

I am pleased to present the University's Statement of Accounts for the year ended 31 July 2004. The Accounts, which are consolidated with the results of the subsidiary and associated companies, comply with the Statement of Recommended Practice for Accounting in Higher and Further Education Institutions and the Accounts Direction of the Higher Education Funding Council for England. They have been audited by Deloitte & Touche LLP, Registered Auditors, whose report is unqualified.

The financial result for the year ended 31 July 2004 incorporates a number of significant amounts relating to property and other transactions. The underlying performance remained strong and in line with our financial strategy. Concern remains, however, that increases in pay, which are well above increases in the overall cost of living, are being financed by growth of activity and cannot be sustained in this way. International student numbers again grew substantially, although not uniformly in all departments. The growth in research turnover was also pleasing, at a time of intense competition from other institutions for the limited amounts of funding on offer.

The strong revenue performance generated substantial cash flow once again. Although capital spending continued at a high level, much was funded from external sources and related to projects started in earlier years, so our net debt was reduced. We have a number of major projects under active consideration, which will require large amounts of investment from our own resources, so it is vital that we continue to generate revenue surpluses. We have started to look at long-term plans for the development of our estate and how they might be financed. It is too early to draw clear conclusions from this study, but our aspirations for development of academic, residential, business partnership and sports facilities are likely to exceed our ability to pay for them so some hard choices will be necessary. I regard that situation as healthy; it is the sign of a vibrant and well-focused institution, driven by opportunities to support the strategic vision.

We have a relatively strong liquid position backed by unused credit facilities with targets for debt servicing and liquidity which were met at the end of the year. Much of our borrowing is offset by cash holdings and we are presently reviewing how our funding should be re-structured to minimise costs. Our exposure to increased borrowing costs through higher interest rates is small, since much of the borrowing is at fixed rates or hedged.

We have an established Risk Management policy and review for new and all major risks on a regular and systematic basis. Each risk is under the supervision of a member of the senior management team and that risk is formally re-examined at least annually. The Audit Committee also reviews the way in which risk is managed and interviews risk-holders, being supported in this work by the Internal Auditors as they conduct their risk-based review of internal control systems and management effectiveness. Our policy is to understand and manage risk, taking a positive attitude to developing and realising the University's strategy.

We look forward to the new challenges which the Higher Education Act 2004 will introduce. We will continue to offer an outstanding experience and the best value for money possible for our students and those who finance their studies, through investment in facilities and staff. We will also do everything we can to recruit the most able students to Loughborough, regardless of their financial circumstances, through the availability of substantial bursaries for applicants from low-income families. We will also expand the wide range of support available through industrial and commercial sponsorship for students and our own scholarship schemes.

The financial situation remains sound and it is business as usual so far as we are concerned.

21 December 2004

**Alan A Woods
University Treasurer**

STATEMENT OF CORPORATE GOVERNANCE

The following statement is given to assist readers of the Financial Statements to obtain an understanding of the governance procedures applied by the University Council.

The University is committed to exhibiting best practice in all aspects of Corporate Governance. This statement describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998.

Summary of the University's Structure of Corporate Governance

The **Council**, the governing body of the University, comprises independent, academic, non-academic and student members appointed under the Statutes of the University, the majority of whom are non-executive. The role of Chair of the Council is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Council holds to itself the responsibilities for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from the Executive Officers on the day to day operations. Certain matters are specifically reserved for Council under the Financial Memorandum with the Higher Education Funding Council for England (HEFCE). The Council meets at least three times a year, and it is advised by the Senate on academic issues.

Both Council and Senate conduct their routine business through committees, some of which are jointly composed. So far as financial management is concerned, the **Resources and Planning Joint Committee** has responsibility for the integration of academic, financial and physical planning and the allocation of resources to departments and sections.

Monitoring of the overall financial situation and treasury management are the responsibility of the **Treasurer's Committee**, which is chaired by a non-executive member of Council and on which there is a majority of independent members. The Resources and Planning Committee monitors the performance of faculties and business units regularly.

The External Auditors address their report on the Financial Statements to Council through the **Treasurer's Committee**.

The **Audit Committee** is comprised of independent members of Council, who are not otherwise involved in the financial management of the University, and other independent persons appointed by Council. Both Internal and External Auditors report to the Audit Committee on a regular basis. The Committee considers the detailed reports together with the recommendations on the financial systems and controls in operation. The Committee takes account of guidance issued by the HEFCE through its Code of Practice on Accountability and Audit. Council appoints the Internal and External Auditors and they have direct access to the Chair of Council, the Chair of Audit Committee and the Vice-Chancellor at any time.

The **Nominating Committee** of Council considers nominations for vacancies in Council membership under the relevant category.

The **Remuneration Committee** of Council determines the remuneration of professorial and senior administrative staff.

Internal Control

The Council, as the governing body of Loughborough University, 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 the governing body in the Charter 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 review 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 2004 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

The principal features of the University's internal control structure are:

- A comprehensive strategic and operational planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets with clear allocation of responsibilities for achievement of strategic and operational plans. In addition the Council has adopted clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving substantial capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council. Comprehensive Financial Regulations, detailing financial controls and procedures, have been approved by the Council. Regular reviews of academic performance and financial results involving variance reporting and updates of forecast out-turns take place.
- The Executive Management Group is tasked with the identification, evaluation and management of risk. A risk management strategy and policy document and an organisation-wide risk register have been established. It has been agreed where the principal responsibility rests for risks identified and a control and reporting strategy which now involves annual reporting back to the Executive Management Group has been implemented for each of the significant risks. A programme of risk awareness training for senior management continues and integration with the planning process has been introduced.
- The Audit Committee monitors the effectiveness of control, governance, the management of risk and value for money of the University's activities. It receives regular reports from the Internal Auditors, and where relevant, the External Auditors. The internal audit approach now reflects the increased emphasis on risk management. Periodic reports concerning internal control are received by Council from the Audit Committee. Reports on the progress on key projects and regular reports from senior management on the steps they are taking to manage risks in their area of responsibility are received by the Council and its principal committees.
- The Performance Monitoring Group and the Research Performance Monitoring Group monitor the performance of all sections of the University in the light of the University's targets set in the Strategic and Operational Plan. Both groups report to the Resources and Planning Committee.

The Audit Committee, on behalf of the University Council, has reviewed the effectiveness of the system of internal control of the University and its subsidiary companies for the period covered by these financial statements. Any system of internal control can, however, only provide reasonable but not absolute assurance against material financial misstatement or loss.

Going Concern

The University Council is satisfied that the University and its subsidiary companies have 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 financial statements.

STATEMENT OF THE RESPONSIBILITIES OF THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

In accordance with the Royal Charter, the Council of the University is ultimately responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

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

In preparing the financial statements, the University Council has to ensure that:-

- suitable accounting policies are selected and applied consistently
- judgements and estimates are made that are reasonable and prudent
- applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements
- the going concern basis is used unless it is inappropriate to presume that the University will continue in operation.

The University Council has taken reasonable steps to: -

- ensure that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe
- ensure that income from the Teacher Training Agency is applied for the purpose for which it has been received and in accordance with the funding agreement with the Teacher Training Agency
- ensure that income from the Learning and Skills Council is applied for the purpose for which it has been received and in accordance with the funding agreement with the Learning and Skills Council
- 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 its subsidiary companies and prevent and detect fraud
- secure the economical, efficient and effective management of the resources and expenditure of the University and its subsidiary companies.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF LOUGHBOROUGH UNIVERSITY

We have audited the financial statements of Loughborough University for the year ended 31 July 2004 which comprise the consolidated income and expenditure account, the consolidated balance sheet, the University balance sheet, the consolidated cash flow statement, the statement of consolidated total recognised gains and losses, the statement of principal accounting policies and the related notes 1 to 33.

This report is made solely to the Council of the University, as a body, in accordance with the Financial Memorandums dated 1 August 2000 and 1 October 2003. Our audit work has been undertaken so that we might state to the Council 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 as a body, for our audit work, for this report, or for opinions we have formed.

Respective responsibilities of the Members of the Council and the Auditors

As described in the Responsibilities of the Council, the Members of the Council are responsible for the preparation of financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities as independent auditors, are established by statute, the Audit Practices Board, the Higher Education Funding Council for England and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice in Accounting for Further and Higher Education. We also report whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by Loughborough University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England.

We also report to you if, in our opinion, the Treasurer's Report is not consistent with the financial statements, if the University has not kept proper accounting records, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Treasurer's Report, including the Corporate Governance Statement, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom auditing standards issued by the Auditing Practices Board and guidance issued by the Higher Education Funding Council for England through its Code of Practice on Accountability and Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the University Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of Loughborough University and its subsidiary companies, consistently 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 as to whether the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- a) the financial statements give a true and fair view of the state of affairs of the University and its subsidiary companies at 31 July 2004 and of its surplus and cash flows for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice in Accounting for Further and Higher Education Institutions and the Royal Charter;

- b) in all material respects, income from the Higher Education Funding Council for England, the Learning and Skills Council and the 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; and
- c) income, in all material respects, has been applied in accordance with the University's statutes and where appropriate with the Financial Memorandums dated 1 August 2000 and 1 October 2003 with the Higher Education Funding Council for England, and the funding agreement with the Teacher Training Agency.

An audit does not provide assurance on the maintenance and integrity of the web-site, including controls used to achieve this, and in particular on whether any changes may have occurred to the financial statements since first published. These matters are the responsibility of the directors but no control procedures can provide absolute assurance in this area.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements differs from legislation in other jurisdictions.

21 December 2004

**Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Nottingham**

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of Endowment Asset Investments and certain land and buildings acquired from Loughborough College of Art and Design, and in accordance with both the Statement of Recommended Practice (SORP) in Accounting for Further and Higher Education 2003 and other applicable Accounting Standards.

2 Basis of Consolidation

The University and its subsidiaries prepare accounts to 31 July. The consolidated financial statements combine the financial statements of the University and all its subsidiary undertakings for the financial year to 31 July 2004. The individual subsidiary companies' financial statements have been prepared in accordance with the Companies Act and other relevant Accounting Standards.

The consolidated financial statements do not include the accounts of Loughborough Students Union, as it is a separate body over which the University does not exert control or have dominant influence. Expenditure, which is included in the Consolidated Income and Expenditure Account of the University, relates to the University's contribution to Union activities.

3 Recognition of Income

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

4 Merger with Loughborough College of Art and Design

Loughborough College of Art and Design merged with Loughborough University on 1 August 1998. The merger was accounted for by the 'acquisition method of accounting' in order to comply with the requirements of the Financial Reporting Standard (FRS) 6, Acquisitions and Mergers. Fair values are attributed to the net separable assets and liabilities. The benefit arising as a consequence of no consideration having been paid by the University for the net value of the assets acquired is included in the Consolidated Balance Sheet as a deduction from Tangible and Intangible Assets. The fair value of the benefit is released to the Income and Expenditure Account over the periods in which the non-monetary assets are recovered, whether through depreciation or disposals. The release is aligned with the corresponding depreciation charge relating to the assets.

5 Pension Schemes

The University participates in the Universities Superannuation Scheme (USS), the Local Government Superannuation Scheme (LGSS) and the Teachers' Pension Scheme (TPS). The USS and LGSS are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. The funds of the USS and LGSS are valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the 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, and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services. The TPS is valued every five years by the Government Actuary. Contributions are paid at the rate specified by the Government Actuary. It is an unfunded Scheme and contributions are made to the Exchequer.

The pension charge for the period includes an amount in respect of enhanced pension entitlements relating to specific University staff who have taken early retirement in prior years. The calculation of the cost of early retirement provisions charged to the Income and Expenditure account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment returns in excess of price inflation.

A provision is made for liabilities and charges representing the extent to which the capital cost of enhanced pension entitlements charged exceeds actual payments made. The provision will be released against the cost to the University of enhanced pension entitlements over the life of each relevant employee.

6 Land and Buildings

Land and buildings are stated at cost or, in the case of buildings acquired as a result of the merger with Loughborough College of Art and Design, at valuation: the basis of valuation is depreciated replacement cost and the valuation on 31 July 1998 was performed by GVA Grimley, International Property Advisors. Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their estimated useful lives, which range between ten and fifty years depending on the method of construction used. Leasehold land and buildings are amortised over the life of the lease up to a maximum of fifty years. Improvements to buildings and long term maintenance projects are capitalised, where they are seen to increase the value or effective life of a building and the value of the improvements is in excess of £50,000. Depreciation is charged from the year of completion and is calculated to write the cost off over the remaining life of the improved building.

Where building projects are financed with the aid of specific grants they are capitalised and depreciated as above. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful, economic life of the building on a basis consistent with the depreciation policy.

Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of those assets.

7 Furniture and Equipment

Equipment, including computers and associated software, where the cost is less than £20,000 per individual item or group of related items, is written off in the year of acquisition. All other furniture and equipment is capitalised.

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

Main finance computer systems	- 7 years
Other main frame computers and telephone equipment	- 5 years
Motor vehicles and other general equipment	- 4 years
Equipment acquired for specific research projects	- project life (generally 3 years)
Furniture and fixtures	- between 5 and 10 years

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

The consolidated tangible assets include items purchased by the subsidiary companies that have been capitalised following normal commercial criteria. Depreciation is provided on a straight-line basis on cost over a period of between 3 and 10 years.

8 Investments

Endowment asset investments are included in the Balance Sheet at market value. Fixed asset investments are included at cost. Short-term deposits are included at the lower of cost and net realisable value. Provision is made for any impairment in value of investments whether or not the impairment is expected to be permanent.

The income receivable from short-term investments includes the effects of identified reductions in value in investments (both realised and unrealised).

9 Stocks

Stocks of goods for re-sale are stated at the lower of cost and net realisable value. Stocks of consumable materials held in academic and service departments are excluded.

10 Maintenance of Premises

Actual expenditure on long-term repairs and maintenance of buildings and building-related plant below £50,000 and routine corrective maintenance is charged to the Income and Expenditure Account in the year in which it is incurred. The costs of long-term maintenance projects above £50,000 in value are capitalised with effect from 1 August 1998.

11 Reserves

The Capital Reserve is equivalent to the amount by which the value of fixed tangible and intangible assets included in the University Balance Sheet at 31 July 2004 exceeded secured and unsecured loans, deferred capital grants and finance lease obligations.

Allocated reserves relate to balances held by academic departments and support services together with other committed funds. The reserves, excluding the Income and Expenditure Account, represent funds which are to be used for specific purposes in academic departments and support service sections and for special initiatives.

12 Foreign Currency Translations

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

13 Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand less overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash. Liquid resources comprise assets held as a readily disposable store of value. They include term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investment.

14 Taxation Status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Income and Corporation Taxes Act 1988 (ICTA). Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Income and Corporation Taxes Act 1988 (ICTA) 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.

All subsidiary companies (with the exception of Loughborough University Development Trust, which is a registered charity) are liable to corporation taxation.

The University's principal activities are exempt from Value Added Tax, but certain ancillary supplies and services are liable to Value Added Tax at various rates. Expenditure includes irrecoverable Value Added Tax charged by suppliers to the University.

15 Operating lease rentals receivable

Operating lease rentals received are credited to the Income and expenditure account on an accruals basis over the period of the lease.

16 Leases

The costs of operating leases are charged to the Income and Expenditure account as they accrue.

Consolidated Income and Expenditure Account

Year Ended 31 July 2004

	Note	2003/04 £'000	2002/03 £'000
INCOME			
Funding Council Grants	1	50,733	47,816
Academic Fees and Support Grants	2	31,726	27,101
Research Grants and Contracts	3	28,700	27,592
Other Income	4	36,660	32,837
Endowment and Investment Income	5	1,653	1,178
Total Income		<u>149,472</u>	<u>136,524</u>
EXPENDITURE			
Staff Costs	6	80,790	75,480
Depreciation	12	7,253	5,500
Other Operating Expenses		50,543	49,856
Interest Payable	7	2,841	1,870
Total Expenditure	8	<u>141,427</u>	<u>132,706</u>
SURPLUS ON CONTINUING OPERATIONS BEFORE TAX	9	8,045	3,818
Taxation	10	(2)	0
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		<u>8,043</u>	<u>3,818</u>

Note: Allocation of the Surplus for the Year

	Note	2003/04 £'000	2002/03 £'000
<i>Transfers to Reserves:</i>			
- capital	24	4,309	1,931
- academic departments	24	545	0
- support services	24	742	881
- general	24	2,447	1,908
<i>Withdrawals from Reserves:</i>			
- academic departments	24	0	(902)
Surplus Before Transfers		<u>8,043</u>	<u>3,818</u>

Note: The surpluses stated above are the historical cost surpluses for the year and the preceding year. The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations.

Balance Sheet as at 31 July 2004

	Note	2003/04		2002/03	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Tangible Assets	12	161,125	159,999	149,525	148,653
Benefit Arising from the Acquisition of LCAD	13	(3,887)	(3,887)	(4,035)	(4,035)
Investments	14	316	727	331	727
Long-term Loans	15	40	40	75	75
Total fixed assets		157,594	156,879	145,896	145,420
Endowment assets	16	1,360	1,360	1,508	1,508
Stocks and Stores in Hand		193	173	294	274
Debtors	17	14,863	15,211	22,596	23,018
Short Term Deposits	18	33,392	33,392	19,904	19,904
Cash at Bank and in Hand		10,510	7,219	11,002	8,402
Total current assets		58,958	55,995	53,796	51,598
Less: Creditors - amounts falling due within one year	19	(36,524)	(34,252)	(37,843)	(35,576)
Net current assets		22,434	21,743	15,953	16,022
Total assets less current liabilities		181,388	179,982	163,357	162,950
Less: Creditors - amounts falling due after more than one year	20	(53,100)	(53,100)	(55,075)	(55,075)
Less: Provisions for liabilities and charges	21	(2,510)	(2,510)	(2,205)	(2,205)
NET ASSETS		125,778	124,372	106,077	105,670
Deferred Capital Grants	22	61,765	60,949	49,959	49,959
Endowments					
Specific	23	1,360	1,360	1,508	1,508
Reserves					
Capital		42,008	42,008	37,699	37,699
Other		20,645	20,055	16,911	16,504
Total reserves	24	62,653	62,063	54,610	54,203
TOTAL		125,778	124,372	106,077	105,670

A A WOODS, Treasurer

D J WALLACE, Vice-Chancellor and Designated Officeholder

H M PEARSON, Bursar and Finance Officer

Consolidated Cash Flow Statement

Year Ended 31 July 2004

RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES

	Note	2003/04	2002/03
		£'000	£'000
Surplus Before Tax		8,045	3,818
Depreciation	12	7,253	5,500
Benefit on Acquisition of LCAD Released to Income	13	(148)	(148)
Deferred Capital Grants Released to Income	22	(2,933)	(1,992)
Investment Income	5	(1,653)	(1,178)
Interest Payable	7	2,841	1,870
Decrease/(Increase) in Stocks		101	(53)
Decrease/(Increase) in Debtors		1,033	(2,238)
(Decrease)/Increase in Creditors		(186)	9,482
Increase/(Decrease) in Provisions		305	(438)
(Decrease) in Provision against Impairment in Value of Investments		0	(20)
Loss/(Profit) on Disposal of Fixed Assets		50	(753)
Receipt of Donated Equipment		(30)	(25)
Net Cash Inflow from Operating Activities		14,678	13,825

CONSOLIDATED CASH FLOW STATEMENT

	Note	2003/04	2002/03
		£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		14,678	13,825
Returns on Investment and Servicing of Finance			
Income from Endowments	23	127	117
Other Interest		1,256	951
Interest Paid		<u>(2,802)</u>	<u>(1,829)</u>
		(1,419)	(761)
Taxation		0	11
Capital Expenditure and Financial Investment			
Payments made to acquire fixed assets		(20,254)	(60,805)
Proceeds from sales of fixed assets		66	783
Fixed Asset Investments Acquired		15	13
Changes in Fixed Asset Loans		35	30
Deferred Capital Grants Received		<u>21,558</u>	<u>23,915</u>
		1,420	(36,064)
NET CASH INFLOW/(OUTFLOW) BEFORE USE OF LIQUID RESOURCES AND FINANCING		14,679	(22,989)
Management of Liquid Resources		(13,488)	(533)
Financing	29	(1,978)	29,629
(DECREASE)/INCREASE IN CASH		(787)	6,107

Consolidated Cash Flow Statement

Year Ended 31 July 2004

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2003/04 £'000	2002/03 £'000
(DECREASE)/INCREASE IN CASH IN THE PERIOD		(787)	6,107
Change in Short Term Deposits		13,488	533
Change in Debt		<u>1,978</u>	<u>(29,629)</u>
CHANGE IN NET FUNDS		14,679	(22,989)
Net Deficit at Beginning of the Year	30	(25,567)	(2,578)
NET DEFICIT AT THE END OF THE YEAR	30	<u><u>(10,888)</u></u>	<u><u>(25,567)</u></u>

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2004

	Note	2003/04 £'000	2002/03 £'000
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		8,043	3,818
Appreciation of Endowment Asset Investments	23	3	14
Prior Year's Endowment Income Expended in Current Year	23	(151)	(140)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u><u>7,895</u></u>	<u><u>3,692</u></u>
Reconciliation			
Opening Reserves and Endowments		56,118	
Total Recognised Gains and Losses for the Year		7,895	
Closing Reserves and Endowments		<u><u>64,013</u></u>	

Notes to the Accounts

1 FUNDING COUNCIL GRANTS

	2003/04 £'000	2002/03 £'000
HEFCE Recurrent:		
Teaching	33,299	31,570
Research	11,346	10,975
Other	3,484	3,075
LSC Recurrent	939	910
Teacher Training Agency	634	553
Deferred Capital Grants Released in Year :		
Buildings (Note 22)	602	366
Equipment (Note 22)	429	367
	<u>50,733</u>	<u>47,816</u>

2 ACADEMIC FEES AND SUPPORT GRANTS

Home Students	17,562	16,729
International Students	14,164	10,372
	<u>31,726</u>	<u>27,101</u>

3 RESEARCH GRANTS AND CONTRACTS

Research Councils and Charities	12,026	10,327
Industry and Commerce	5,178	5,592
Governmental	11,496	11,673
	<u>28,700</u>	<u>27,592</u>

Facilities for research with a value of £275,000 (2002/03 - £614,000) were donated to the University, but are not included in the above.

4 OTHER INCOME

	2003/04 £'000	2002/03 £'000
Residences, Catering and Conferences	21,000	20,690
Other income	14,536	11,692
Benefit on acquisition of LCAD - Release to Income (Note 13)	148	148
Released from Deferred Capital Grants	976	307
	<u>36,660</u>	<u>32,837</u>

5 ENDOWMENT INCOME AND INVESTMENT INCOME

Transferred from Specific Endowments (Note 23)	278	257
Income from Short-term Investments	1,344	921
Income from Sale of Shares	31	0
	<u>1,653</u>	<u>1,178</u>

Notes to the Accounts

6 STAFF COSTS

	2003/04 £'000	2002/03 £'000
Staff Costs :		
Wages and Salaries	66,978	63,259
Social Security Costs	5,523	4,828
Other Pension Costs (Note 31)	7,386	7,073
Exceptional Restructuring Costs	903	320
Total	<u>80,790</u>	<u>75,480</u>
Staff Costs - Operational	79,887	75,160
Staff Costs - Restructuring	<u>903</u>	<u>320</u>

The emoluments of the Vice-Chancellor amounted to £148,000 (2002/03 - £140,000) and are disclosed on the same basis as for higher paid staff. The University's pension contributions to USS in respect of the Vice-Chancellor are on the standard basis for academic and related staff and amounted to £20,700 (2002/03 - £20,000).

Remuneration of other higher paid staff, excluding employer's pension contributions:	No.	No.
£70,000 to £79,999	10	10
£80,000 to £89,999	5	6
£90,000 to £99,999	<u>3</u>	<u>1</u>

Average Staff Numbers by Major Category :

	No.	No.
Academic	560	543
Research	339	352
Academic Related	350	333
Technical	173	174
Other	<u>1,068</u>	<u>1,022</u>
	<u>2,490</u>	<u>2,424</u>

The average staff numbers, by major category, are expressed as full-time equivalents and are disclosed at a consistent date, that is at 1 April each year.

Compensation for loss of office payable to a senior post- holder:	2003/04 £'000	2002/03 £'000
Compensation payable	<u>0</u>	<u>19</u>

The severance payment was in accordance with the policy of the University's Remuneration Committee.

Notes to the Accounts

7 INTEREST PAYABLE

	2003/04	2002/03
	£'000	£'000
Loans not wholly repayable within five years	<u>2,841</u>	1,870

8 ANALYSIS OF 2003/04 EXPENDITURE BY ACTIVITY

Academic Departments	55,916	51,294
Academic Services	9,066	8,218
Research Grants and Contracts	23,764	22,891
Residences, Catering and Conferences	19,716	19,356
Premises	11,839	10,594
Administration and Central Services	14,032	11,164
Other Expenses	7,094	9,189
	<u>141,427</u>	<u>132,706</u>

Notes to the Accounts

9 SURPLUS BEFORE TAX

	2003/04 £'000	2002/03 £'000
This is stated after charging:		
External Auditors Remuneration in Respect of Audit services (University 2003/04 - £30,000 2002/03 - £30,000)	58	56
External Auditors Remuneration in Respect of Non-Audit Services	11	11
Loss/(Profit) on Disposal of Fixed Assets	50	(753)
Operating Lease Rentals	296	318
UK Corporation Tax charge on the profits of Subsidiary Companies	<u>2</u>	0

10 TAXATION

11 ANALYSIS OF FUND BALANCES BETWEEN THE CONSOLIDATED NET ASSETS

	Tangible and Intangible Assets	Long-term and Endowment Investments	Long-term Loans	Net Current Assets	Long-term Liabilities, Provisions and Deferred Capital Grants	Total Funds
	£'000	£'000	£'000	£'000	£'000	£'000
Specific Endowments	0	1,360	0	0	0	1,360
Reserves:						
Capital	42,008	0	0	0		42,008
Other	(1,620)	316	40	24,419	(2,510)	20,645
Loans	55,084	0	0	(1,984)	(53,100)	0
Deferred Capital Grants	61,765	0	0	0	(61,765)	0
Net Assets Total	<u>157,237</u>	<u>1,676</u>	<u>40</u>	<u>22,435</u>	<u>(117,375)</u>	<u>64,013</u>

Note: Tangible and Intangible Assets held by the subsidiary companies are financed by a combination of Other Reserves and Loans.

Notes to the Accounts

12 TANGIBLE ASSETS

	Freehold Land and Buildings £'000	Leasehold Land and Buildings £'000	Fixtures, Fittings and Equipment £'000	Total £'000
CONSOLIDATED				
Cost and valuation:				
At 1 August 2003	132,733	35,774	27,762	196,269
Additions at cost	9,463	5,086	5,217	19,766
Disposals at cost	(147)	0	(3,902)	(4,049)
Transfer	574	0	(574)	0
At 31 July 2004	<u>142,623</u>	<u>40,860</u>	<u>28,503</u>	<u>211,986</u>
Depreciation:				
At 1 August 2003	(26,978)	(239)	(19,527)	(46,744)
Charge for the year	(3,422)	(821)	(3,010)	(7,253)
Eliminated on disposals	143	0	2,993	3,136
Transfer	(231)	0	231	0
At 31 July 2004	<u>(30,488)</u>	<u>(1,060)</u>	<u>(19,313)</u>	<u>(50,861)</u>
Net Book Value:				
At 31 July 2004	<u>112,135</u>	<u>39,800</u>	<u>9,190</u>	<u>161,125</u>
At 31 July 2003	<u>105,755</u>	<u>35,535</u>	<u>8,235</u>	<u>149,525</u>
UNIVERSITY				
Cost and valuation:				
At 1 August 2003	132,733	35,774	25,004	193,511
Additions at cost	9,237	5,086	4,818	19,141
Disposals at cost	(147)	0	(3,721)	(3,868)
At 31 July 2004	<u>141,823</u>	<u>40,860</u>	<u>26,101</u>	<u>208,784</u>
Depreciation:				
At 1 August 2003	(26,978)	(239)	(17,641)	(44,858)
Charge for the year	(3,368)	(821)	(2,706)	(6,895)
Eliminated on disposals	143	0	2,825	2,968
At 31 July 2004	<u>(30,203)</u>	<u>(1,060)</u>	<u>(17,522)</u>	<u>(48,785)</u>
Net Book Value:				
At 31 July 2004	<u>111,620</u>	<u>39,800</u>	<u>8,579</u>	<u>159,999</u>
At 31 July 2003	<u>105,755</u>	<u>35,535</u>	<u>7,363</u>	<u>148,653</u>

Note: Freehold and leasehold buildings with a net book value of £21,094,850 (2002/03 - £18,531,000) and cost of £28,683,796 (2002/03 - £26,732,000) have been funded from Treasury sources: 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 Financial Memorandum with the Higher Education Funding Council for England. At 31 July 2004, freehold land and buildings at cost included £2,957,809 (2002/03 - £14,984,000) in respect of buildings under construction.

Note: The cost of fixed assets held for use in operating leases amount to £26,000,000 (2002/03 - £26,000,000) with accumulated depreciation of £514,000 (2002/03 - £173,000).

Notes to the Accounts

13 BENEFIT ARISING FROM THE ACQUISITION OF LOUGHBOROUGH COLLEGE OF ART & DESIGN (CONSOLIDATED AND UNIVERSITY)

	£'000
Fair Value:	
At 31 July 2004 and at 1 August 2003	<u>5,565</u>
Released to Income and Expenditure Account :	
At 1 August 2003	(1,530)
Release for year (Note 4)	(148)
At 31 July 2004	<u>(1,678)</u>
Net Book Value :	
At 31 July 2004	<u>3,887</u>
At 31 July 2003	<u>4,035</u>

14 INVESTMENTS

	2003/04		2002/03	
	Consolidated	University	Consolidated	University
	£'000	£'000	£'000	£'000
Subsidiary Companies (Note 33)	0	479	0	479
Subsidiary investments in spinouts:	68	0	83	0
Dexterity Research Limited				
Kalibrant Limited				
Phlogiston Scientific Limited				
Ellula Sounds Limited				
Progressive Sport Technologies Limited				
Antrum Limited				
Hazid Technologies Limited				
Trade Investments:				
CVCP Properties PLC	42	42	42	42
Adsfab Limited	6	6	6	6
Lachesis Seed Fund Limited	200	200	200	200
Net book value at 31 July	<u>316</u>	<u>727</u>	<u>331</u>	<u>727</u>

Note: The market value of all shareholdings at 31 July 2004 are not significantly different from those values stated above.

Notes to the Accounts

15 LONG-TERM LOANS

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Loughborough Students Union	25	25	50	50
Charnwood Molecular Limited	15	15	25	25
	<u>40</u>	<u>40</u>	<u>75</u>	<u>75</u>

Note: The loan granted to Loughborough Students Union is unsecured, interest-free and is repayable over the period to 31 January 2005.

The loan granted to Charnwood Molecular Limited is unsecured and is repayable over the period to October 2004. It is interest-free provided that repayments are made on time. Late repayments will incur an interest rate of 5%.

16 ENDOWMENT ASSET INVESTMENTS (CONSOLIDATED AND UNIVERSITY)

	2003/04 £'000	2002/03 £'000
Balance at 1 August 2003	1,508	1,634
Disposals	(151)	(140)
Appreciation on Revaluation	3	14
Balance at 31 July 2004	<u>1,360</u>	<u>1,508</u>
Quoted Unit Trusts (Unlisted)	828	824
Bank Balances	532	684
Total Endowment Asset Investments	<u>1,360</u>	<u>1,508</u>
Quoted Unit Trusts at Cost	<u>636</u>	<u>636</u>

Notes to the Accounts

17 DEBTORS

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Amounts falling due within one year:				
Trade debtors	14,346	13,420	20,094	19,166
Other debtors	0	0	1,951	1,951
Prepayments and Accrued Income	517	473	551	468
Amounts due from Subsidiary Companies	0	1,318	0	1,433
	<u>14,863</u>	<u>15,211</u>	<u>22,596</u>	<u>23,018</u>

18 SHORT TERM DEPOSITS

Short term deposits include 63,113 BTG plc ordinary shares of 10p each.

The cost of the shares was £4,722 and their market value as at 31 July 2004 was £68,162.

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Bank Overdraft	238	0	95	0
Secured Loans	1,959	1,959	1,858	1,858
Unsecured Loans	25	25	129	25
Payments Received on Account	18,527	18,477	18,542	18,451
Trade creditors	10,289	10,006	12,036	11,752
Social Security and Other Taxation Payable	2,331	2,231	1,994	1,884
Accruals and Deferred Income	3,155	1,554	3,189	1,606
	<u>36,524</u>	<u>34,252</u>	<u>37,843</u>	<u>35,576</u>

Notes to the Accounts

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Secured loans repayable by 2028	53,087	53,087	55,038	55,038
Unsecured loans repayable by 2005	13	13	37	37
	<u>53,100</u>	<u>53,100</u>	<u>55,075</u>	<u>55,075</u>
Analysis of Secured and Unsecured Loans:				
Due between one and two years	2,094	2,094	1,984	1,984
Due between two and five years	6,904	6,904	5,828	5,828
Due in five years or more	44,102	44,102	47,263	47,263
	<u>53,100</u>	<u>53,100</u>	<u>55,075</u>	<u>55,075</u>

The Secured Loans are secured on various University campus buildings.

£5,000,000 of the above loan is fixed at a rate of 5.845% until December 2011. £5,000,000 of the above loan is subject to a collar in the range of 4.52%-7.0% until December 2011. £17,000,000 of the above loan is fixed at a rate of 5.5175% until March 2019. Interest on the remaining loans is variable at rates between 0.53% and 0.545% above LIBOR. These loans are repayable by instalments falling due between 1 August 2003 and 31 March 2028.

21 PROVISIONS FOR LIABILITIES AND CHARGES (CONSOLIDATED AND UNIVERSITY)

	Premature Retirement Compensation £'000	Enhanced Pension Costs £'000	Total £'000
At 1 August 2003	419	1,786	2,205
Utilised in year	(444)	(93)	(537)
Transfer from Income and Expenditure Account	812	30	842
At 31 July 2004	<u>787</u>	<u>1,723</u>	<u>2,510</u>

Note: The assumptions for calculating the Provision for Enhanced Pension Costs under Financial Reporting Standard (FRS) 17, Retirement Benefits, are as follows:

	31 July 2004	31 July 2003
Discount Rate	5.8%	5.5%
Inflation	<u>2.9%</u>	<u>2.6%</u>

The projected value of the liability under FRS 17 at 31 July 2004 is £1,723,000. This is consistent with the Provision disclosed above, under Statement of Standard Accounting Practice (SSAP) 24, Accounting for Pension Costs.

Notes to the Accounts

22 DEFERRED CAPITAL GRANTS

CONSOLIDATED

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2003:			
Buildings	18,533	28,998	47,531
Equipment	1,162	1,266	2,428
Total	19,695	30,264	49,959
Cash Receivable:			
Buildings	3,165	7,533	10,698
Equipment	2,508	1,533	4,041
Total	5,673	9,066	14,739
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(602)	(900)	(1,502)
Equipment (Notes 1, 3 and 4)	(429)	(1,002)	(1,431)
Total	(1,031)	(1,902)	(2,933)
At 31 July 2004:			
Buildings	21,096	35,631	56,727
Equipment	3,241	1,797	5,038
Total	24,337	37,428	61,765

UNIVERSITY

	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2003:			
Buildings	18,533	28,998	47,531
Equipment	1,162	1,266	2,428
Total	19,695	30,264	49,959
Cash Receivable:			
Buildings	3,165	6,707	9,872
Equipment	2,508	1,533	4,041
Total	5,673	8,240	13,913
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(602)	(890)	(1,492)
Equipment (Notes 1, 3 and 4)	(429)	(1,002)	(1,431)
Total	(1,031)	(1,892)	(2,923)
At 31 July 2004:			
Buildings	21,096	34,815	55,911
Equipment	3,241	1,797	5,038
Total	24,337	36,612	60,949

Notes to the Accounts

23 SPECIFIC ENDOWMENTS (CONSOLIDATED AND UNIVERSITY)

	2003/04 £'000	2002/03 £'000
At 1 August	1,508	1,634
Appreciation of Endowment Asset Investments	3	14
Income for Year	127	117
Transferred to Income and Expenditure Account (Note 5)	(278)	(257)
At 31 July	1,360	1,508

24 RESERVES

	Capital £'000	Academic Departments £'000	Support Services £'000	Other £'000	Income and Expenditure Account £'000	Total £'000
CONSOLIDATED						
Balance at 1 August 2003:	37,699	1,139	5,274	1,564	8,934	54,610
Surplus before Transfers	0	0	0	0	8,043	8,043
Transfers:						
Income and Expenditure Account	4,309	545	742	(1,564)	(4,032)	0
Balance at 31 July 2004	42,008	1,684	6,016	0	12,945	62,653
UNIVERSITY						
Balance at 1 August 2003:	37,699	1,139	5,274	1,564	8,527	54,203
Surplus before Transfers	0	0	0	0	7,860	7,860
Transfers:						
Income and Expenditure Account	4,309	545	742	(1,564)	(4,032)	0
Balance at 31 July 2004	42,008	1,684	6,016	0	12,355	62,063

25 LEASE OBLIGATIONS

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Land and Buildings				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	0	0	0	0
Between one and two years	10	0	0	0
Between two and five years	0	0	10	0
Over five years	67	67	65	65
	77	67	75	65
Other				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	13	3	6	0
Between one and two years	0	0	68	37
Between two and five years	242	215	219	203
Over five years	11	11	12	12
	266	229	305	252

Notes to the Accounts

26 CAPITAL COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2004:

	2003/04		2002/03	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Commitments contracted	3,881	3,881	4,133	4,133
Authorised but not contracted	3,774	3,774	5,110	5,110
	<u>7,655</u>	<u>7,655</u>	<u>9,243</u>	<u>9,243</u>
Guarantees –				
to National Australia Bank Ltd for Imago @ Loughborough Ltd	0	400	0	400
to various Building Societies for staff mortgages	8	8	11	11
	<u>8</u>	<u>408</u>	<u>11</u>	<u>411</u>

27 CONTINGENT LIABILITIES

Guarantees –

to National Australia Bank Ltd for Imago @ Loughborough Ltd
to various Building Societies for staff mortgages

0	400
8	8
<u>8</u>	<u>408</u>

Notes: The amount relating to staff mortgage guarantees represents the maximum guaranteed by the University at 31 July 2004.

The University has given written undertakings to support the Subsidiary Companies for at least the next twelve months.

28 HARSHIP FUNDS (CONSOLIDATED AND UNIVERSITY)

	2003/04		2002/03	
	£'000	£'000	£'000	£'000
Income:				
Excess of Income over Expenditure Brought Forward	33		51	
Funding Council Grants	509		556	
Interest Earned	<u>2</u>	544	<u>6</u>	613
Expenditure:				
Disbursed to Students	(484)		(560)	
Fund Running Costs	<u>(16)</u>	(500)	<u>(20)</u>	(580)
Excess of Income Over Expenditure Carried Forward		<u><u>44</u></u>		<u><u>33</u></u>

Note:

Funding Council grants are available solely to assist 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

29 ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING DURING THE YEAR

	2003/04 £'000	2002/03 £'000
Balance at 1 August 2003	<u>57,062</u>	27,433
New Loans	0	31,004
Capital Repayments	<u>(1,978)</u>	<u>(1,375)</u>
	<u>55,084</u>	<u>57,062</u>
Balance at 31 July 2004	<u>55,084</u>	<u>57,062</u>
Repayable:		
Within one year	1,984	1,987
Over one year	<u>53,100</u>	<u>55,075</u>
	<u>55,084</u>	<u>57,062</u>

30 ANALYSIS OF CHANGES IN NET FUNDS

	At 1st August 2003 £'000	Cash Flows £'000	Other Non-Cash Changes £'000	At 31st July 2004 £'000
Cash at Bank and In Hand :				
Endowment Assets	684	(152)	0	532
Other	11,002	(492)	0	10,510
Bank Overdraft	(95)	(143)	0	(238)
	<u>11,591</u>	<u>(787)</u>	<u>0</u>	<u>10,804</u>
Short Term Investments	19,904	13,488		33,392
Debts Due Within One Year	(1,987)	1,978	(1,975)	(1,984)
Debts Due After One Year	(55,075)	0	1,975	(53,100)
	<u>(25,567)</u>	<u>14,679</u>	<u>0</u>	<u>(10,888)</u>

Notes to the Accounts

31 PENSION SCHEMES

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Leicestershire County Council Superannuation Scheme (LGSS). Also for academic staff who were employed by Loughborough College of Art & Design in August 1998, contributions are paid to the Teachers' Pension Scheme (TPS).

USS and LGSS are defined benefit schemes which are externally funded and under the control of independent trustees. The funds are valued by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the actuaries review the progress of the schemes.

TPS is valued every year by the Government Actuary. Contributions are paid by the University at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made by Parliament.

The assumptions and other data relevant to the determination of the contribution levels of the Schemes are as follows:

	USS	LGSS	TPS
Latest actuarial valuations	31 Mar 2002	31 Mar 2001	31 Mar 2001
Investment returns per annum	5.0%	6.0%	7.0%
Salary scale increase per annum	3.7%	4.3%	5.0%
Pension increase per annum	2.7%	2.8%	3.5%
Market value of assets at date of last valuation	£19,938 M	£1,325 M	£142,880 M
Proportion of members' accrued benefits covered by the actuarial value of the assets	101.0%	100.0%	100.0%

The contribution rate payable by the University to USS was 18.55% of pensionable salaries to 31 December 1996 and 14% thereafter. The actuary to USS has confirmed that it is appropriate to take the pensions costs in the institution's accounts to be equal to the actual contributions paid during the year. In particular, the contribution rate recommended following the 2002 valuation has regard to the surplus disclosed, the benefit improvements introduced subsequent to the valuation and the need to spread surplus in a prudent manner over the future-working lifetime of current scheme members.

For LGSS, the actuary has indicated that the resources of the scheme are likely, in the normal course of events, to meet the liabilities as they fall due at the level specified by the LGSS Regulations. The contribution rate payable by the employer was increased to 11.1% from April 2004. The results of the March 2004 actuarial valuation should be available early 2005.

For TPS, the contribution rate payable by the employer was increased to 13.5% of pensionable salaries with effect from 1 April 2003. The aim of the actuarial review was to specify the level of future contributions. The cost of the pension increases was excluded from the valuation and consequently the additional value is met directly by the Exchequer.

The total pension cost for the University and its subsidiaries was:

	2003/04 £'000	2002/03 £'000
Contributions to USS	5,527	5,411
Contributions to LGSS	1,706	1,545
Contributions to TPS	134	102
Contributions to other pension schemes	19	15
Total Pension Cost (Note 6)	7,386	7,073
Outstanding Pension Contributions at 31 July	959	904

Notes to the Accounts

31 PENSION SCHEMES (Continued)

Financial Reporting Standard (FRS) 17, Retirement Benefits, was issued in November 2000 and came into force for accounting periods ending on or after 22 June 2001. FRS 17 requires that employers should disclose their share of assets and liabilities for each defined benefit scheme. Under full accounting, the intention is that this valuation is included in the employer's balance sheet.

The Accounting Standards Board has deferred full adoption of FRS 17 but the University has chosen to adopt the transitional arrangements.

The three pension schemes in place at the University are classified as multi-employer defined benefit schemes. However, for accounting purposes, USS and TPS are classified as defined contribution schemes, as the employer's contribution rate is set on a global basis. It is therefore not possible to identify individual shares for each employer.

In the case of LGSS, the actuary of the scheme has identified the University's share of its assets and liabilities as at 31 July 2004.

The final assumptions used by the actuary at 31 July 2004 were:

	2003/04	2002/03	2001/02
	%	%	%
Salary increases	4.4	4.1	3.9
Pension increases	2.9	2.6	2.4
Discount rate	5.8	5.5	6.0
Price increases	2.9	2.6	2.4

The assets in the LGSS scheme and the expected rate of return were:

	2003/04		2002/03		2001/02	
	LONG-TERM	FUND	LONG-TERM	FUND VALUE	LONG-TERM	FUND VALUE
	RETURN %	VALUE	RETURN %	£'000	RETURN %	£'000
		£'000				
Equities	7.9	38,218	8.0	35,345	8.0	32,782
Bonds	5.4	9,509	5.0	8,037	5.5	8,450
Property	6.7	5,578	6.0	4,549	6.0	2,866
Cash	4.5	1,303	3.5	1,393	4.0	1,451
		<u>54,608</u>		<u>49,324</u>		<u>45,549</u>

The following amounts at 31 July 2004 were measured in accordance with the requirements of FRS 17.

	2003/04	2002/03	2002/01
	£'000	£'000	£'000
Loughborough University's estimated asset share	54,608	49,324	45,549
Present value of Loughborough University's scheme liabilities	(72,648)	(67,173)	(54,657)
Deficit in the scheme - Net pension liability	<u>(18,040)</u>	<u>(17,849)</u>	<u>(9,108)</u>

If the above amounts had been recognised in the financial statements, the University's net assets and income and expenditure account reserve at 31 July 2004 would be as follows:

	2003/04	2002/03
	£'000	£'000
Net consolidated assets excluding pension liability	125,778	106,077
Pension liability	<u>(18,040)</u>	<u>(17,849)</u>
Net consolidated assets including pension liability	107,738	88,228
Consolidated income and expenditure account reserve excluding pension liability	12,945	8,934
Pension reserve	<u>(18,040)</u>	<u>(17,849)</u>
Consolidated income and expenditure account reserve	<u>(5,092)</u>	<u>(8,915)</u>

Notes to the Accounts

31 PENSION SCHEMES (Continued)

Additional disclosures required for FRS 17 for the year ended 31 July 2004.

Analysis of the amount that would be charged to operating surplus	2003/04	2002/03
	£'000	£'000
Current service cost	2,648	1,900
Past service cost	93	-
Total operating charge	<u>2,741</u>	<u>1,900</u>

Analysis of the amount that would be credited to other finance income	2003/04	2002/03
	£'000	£'000
Expected return on pension scheme assets	3,576	3,320
Interest on pension scheme liabilities	(3,747)	(3,280)
Net return	<u>(171)</u>	<u>40</u>

Analysis of the amount that would be recognised in statement of total recognised gains and losses (STRGL)	2003/04	2002/03
	£'000	£'000
Actual return less expected return on pension scheme assets	1,017	(740)
Experience gains and losses arising on the scheme liabilities	-	20
Changes in assumptions underlying the present value of the scheme liabilities	(87)	(7,780)
Actuarial deficit recognised in STRGL	<u>930</u>	<u>(8,500)</u>

Movement in surplus in the year	2003/04	2002/03
	£'000	£'000
Deficit in scheme at beginning of the year	(17,849)	(9,109)
Movement in the year:		
Current service cost	(2,648)	(1,900)
Contributions	1,791	1,620
Past service costs	(93)	-
Other finance income	-	-
Net return on assets	(171)	40
Actuarial loss	930	(8,500)
Deficit in the scheme at end of the year	<u>(18,040)</u>	<u>(17,849)</u>

History of experience gains and losses	2003/04	2002/03	2002/02
	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:			
Amount (£'000)	1,017	(740)	(10,302)
Percentage of scheme assets	1.9%	(1.5%)	(22.6%)
Experience gains and losses on scheme liabilities:			
Amount (£'000)	-	20	891
Percentage of the present value of the scheme liabilities	0.0%	0.0%	1.6%
Total amount recognised in statement of total recognised gains and losses:			
Amount (£'000)	930	(8,500)	(5,745)
Percentage of the present value of the scheme liabilities	1.3%	(12.7%)	(10.5%)

Notes to the Accounts

32 DISCLOSURE OF RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the compositions of the Council, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest, including those identified below, are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

	Income £'000	Expenditure £'000	Balances as at 31.7.04 (due to)/from the University £'000
Members of Council			
Sir David Wallace is a Director of Youth Sport Trust	625	189	(109)
J Mutton is Principal of Loughborough College	115	245	(4)
Sir John Jennings is Chairman of MITIE group plc	11	124	3
Sir John Jennings is Chairman of Intelligent Energy Ltd	74	0	(11)
Prof PH Roberts is a Member of Council at Cranfield University	40	75	0
S Profitt is Vice President of AstraZeneca R&D Charnwood	779	0	(158)
Dr R Parry-Jones is Group Vice-President of The Ford Motor Company	1148	17	(289)
Directors of subsidiaries & senior employees			
H M Pearson is a Director of UCAS	0	88	4
H M Pearson is a Governor of Loughborough College	115	245	(4)
Professor S Grigg and N Hubbard are management shareholders of BAE Systems plc	1,524	0	(405)

The University has taken advantage of the exemption allowed by Financial Reporting Standard 8 not to disclose transactions between group companies.

The University Officers and Members of Council have used the catering, sporting and other facilities of the University on terms which are available to all members of University staff.

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Notes to the Accounts

33 SUBSIDIARY COMPANIES

The subsidiary companies (all of which are registered in England & Wales), wholly-owned or effectively controlled by the University, are as follows:

Company	Principal Activity
Ergonomics and Safety Research Ltd	Marketing of the expertise and facilities of the the University in applicable specialist areas.
Loughborough University Consultants Ltd	
Loughborough University Enterprises Ltd	
Loughborough University Holdings Ltd	Holding company for Loughborough University Consultants Ltd and Loughborough University Enterprises Ltd
CASCAiD Ltd	Production and sale of computer-aided careers guidance
Imago @ Loughborough Ltd (Formerly Loughborough University (Short Course Centre) Ltd)	Management of conference and related commercial facilities
Loughborough University Sports Facilities Ltd	Management of sports facilities
Loughborough University Services Ltd	Provision of utility and other services
Loughborough University Development Trust	Promotion of the charitable purposes of the University
Open College Network South East Midlands Ltd	Provision of accreditation services for sub-degree level education
Loughborough Innovation Centre Ltd	Letting of premises to business start-up companies
Imago @ Loughborough 2 Ltd (Formerly Imago @ Loughborough Ltd)	Provision of conference facilities
Automotive Education Ltd	Dormant company, not traded yet

Consolidated Five Year Results

INCOME AND EXPENDITURE ACCOUNT

	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000	1999/00 £'000
Income	149,472	136,524	121,869	114,847	106,655
Expenditure	(141,427)	(132,706)	(119,688)	(111,682)	(105,874)
Surplus Before Transfers And Tax	8,045	3,818	2,181	3,165	781

BALANCE SHEET

	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000	1999/00 £'000
Fixed Assets and Investments	157,594	145,896	91,817	77,958	68,906
Endowment Assets	1,360	1,508	1,634	1,796	1,839
Net Current Assets	22,434	15,953	15,327	16,769	14,656
Less Amounts Due After More Than One Year:					
Creditors Due After More Than One Year	(53,100)	(55,075)	(26,312)	(27,321)	(23,032)
Provisions	(2,510)	(2,205)	(2,643)	(2,439)	(2,305)
Total Net Assets	125,778	106,077	79,823	66,763	60,064
Represented by:					
Deferred Capital Grants	61,765	49,959	27,397	16,367	12,773
Specific Endowments	1,360	1,508	1,634	1,796	1,839
Capital Reserve	42,008	37,699	35,768	31,993	30,917
General Reserves	20,645	16,911	15,024	16,607	14,535
Total Funds	125,778	106,077	79,823	66,763	60,064

CASH FLOW STATEMENT

	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000	1999/00 £'000
Net Cash Inflow from Operating Activities	14,678	13,825	9,026	3,381	6,344
Returns on Investment and Servicing of Finance	(1,419)	(761)	161	(127)	563
Taxation	0	11	(39)	(36)	(37)
Capital Expenditure and Financial Investment	1,420	(36,064)	(11,937)	(8,994)	(15,036)
Net Cash Inflow/(Outflow) Before Management of Liquid Resources and Financing	14,679	(22,989)	(2,789)	(5,776)	(8,166)
Management of Liquid Resources	(13,488)	(533)	4,437	(557)	6,381
Financing	(1,978)	29,629	(1,061)	4,470	2,609
Increase/(Decrease) In Cash Balances	(787)	6,107	587	(1,863)	824