

FINANCIAL STATEMENTS

2004/05

Contents

	Page
Officers and Staff Principally Concerned with Financial Matters	2
Providers of Financial Services	2
Treasurer's Report and Financial Review	3-4
Statement of Corporate Governance	5-6
Statement of Responsibilities of the Council	7
Independent Auditors' Report to the Council	8-9
Statement of Principal Accounting Policies	10-12
Consolidated Income and Expenditure Account	13
Balance Sheets	14
Consolidated Cash Flow Statement	15-16
Statement of Consolidated Total Recognised Gains and Losses	16
Notes to the Accounts	17-34
Consolidated Five Year Results	35

OFFICERS AND STAFF PRINCIPALLY CONCERNED WITH FINANCIAL MATTERS

Membership of Council as at 20th December 2005

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

Membership of Committees as at 20th December 2005

Audit Committee ¹	Resources & Planning Committee ³	Remuneration Committee ⁴
Treasurer's Committee ²		Nominating Committee ⁵

Officers and Staff in Post as at 20th December 2005

Chair of Council	Sir Bryan Carsberg, MSc(Econ), LLd(Hon), ScD(Hon), DUniv(Hon), DLitt(Hon), MA(Econ)(Hon), FCA, HonFIA
	Director, Inmarsat plc 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	Dr W M Moss, DUniv (Hon) 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, FEng, 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 LLP, 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 2005. The Accounts, which are consolidated with the results of the subsidiary companies, comply with the *Statement of Recommended Practice on Accounting for Further and Higher Education* 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.

Results for the Year

Total income rose by 2.3% to £153M; underlying growth at 3.3% was higher if the effects of non-recurring items in the previous year are discounted. The average rate of increase during the last five years was 7.7%; this gives an indication of the growth of the University.

However, growth in turnover has been less than growth of staff costs, which are growing significantly over the rate of inflation. The University will have to look in depth at what it can do to contain that growth, so that its overall development is not compromised.

After discounting surpluses from rationalisation of property, the underlying surplus position was a little short of our target, but satisfactory in all the circumstances. The start of the year was marked by a lower than expected intake of international students and I am pleased that the University was able to contain its impact on the results.

The Balance Sheet remains in a relatively healthy state, with net long-term borrowing lower at the end of the year. Cash flow from operations continued to be very positive and this enabled us to earn a considerably increased amount on our cash balances. Interest income rose by 46% to £2M, an average return of 4.7%. The value of our endowment assets was little changed; the overall return on those investments was 15.6%.

Cash Flow and Funding

Net cash flow from operations was £15M, continuing the strong record of cash generation by the University. This is critically important for us, if we are to address the topical issue of sustainability of our operations. As our plant and equipment ages and deteriorates, we must plan to replace and improve it from our own resources. Relying on others to do so is unlikely to be a long-term solution, even if it were desirable.

Long-term borrowing fell slightly to £51M. We have re-tendered our loan facilities to take advantage of lower margin interest premiums. A substantial part of the total loans are protected against increased rates of interest through hedging arrangements.

Capital Projects

During the year, the University spent £19M on major capital projects, bringing the total during the last five years to £133M. The largest project is the extension to Burleigh Court, our conference centre, which reflects our confidence in this business and its capacity for profitable growth. Capital funding from Government enabled us to make a substantial addition to our teaching facilities through the creation of the Stewart Mason building. Work also started on a major extension to the Sir Frank Gibb building, which houses the Civil and Building Engineering Department. At the same time, several refurbishment projects were in progress, some causing serious headaches because they involved disturbing what would otherwise be safely-contained asbestos. The costs incurred when asbestos is involved are substantial and often causes unexpected delays when planning the detailed removal programme.

Pensions

Whilst the Universities Superannuation Scheme provides pension arrangements for many staff at the University, a substantial number are members of the Leicestershire County Council pension scheme. Both schemes are funded and are classified as multi-employer defined benefit schemes. FRS 17 requires that employers should disclose their share of assets and liabilities for each such scheme. However it is only possible to identify individual shares for the County Council scheme. Application of the Standard reveals a deficit of £16.7M for this scheme, which will require considerable increases in contributions during the next few years. The USS fund is currently the subject of its regular triennial valuation, but inter-year valuations suggest that it is in a healthier state and a significant deficit is not expected.

Prospects

The surplus for 2004-5 at 3.3% was just above our 3% strategic target. The introduction of top-up fees in 2006 will generate substantial additional resources for the University but higher fees will inevitably raise the expectations of students and those who pay those fees and we must expect to be investing substantial amounts in better facilities. At the same time, realising our overall strategic aims in research and investing to maintain our leading record for high quality teaching will require more spending, especially in recruiting and retaining excellent staff. Therein lies one of our principal

dilemmas. The best staff can command high salaries, but we cannot allow total pay costs to continue outstripping inflation, so there must be an offset by more efficient working elsewhere.

My overall conclusion is to report a stable and satisfactory financial position, which supports the University's long-term plans. I strongly support the added emphasis now being given to the development of long-term strategic planning.

20 December 2005

**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 2005 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 University Council, through the Audit Committee, 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 on Accounting for Further and Higher Education 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 2005 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 Memorandum dated 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 on Accounting for Further and Higher Education and other Accounting Standards. 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 the group, 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 the group at 31 July 2005 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) in all material respects, income has been applied in accordance with the University's statutes and where appropriate with the Financial Memorandum dated 1 October 2003 with the Higher Education Funding Council for England, and the funding agreement with the Teacher Training Agency.

20 December 2005

**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 2005. 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. Unspent endowments are shown as Endowment Reserves on the balance sheet, whilst unspent donations, where terms require are classed as deferred income. All income from other sources 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 or building related plant 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 or building related plant.

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 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 Foreign currency transactions

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.

12 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.

13 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.

14 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.

15 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 2005

	Note	2004/05 £'000	2003/04 £'000
INCOME			
Funding Council Grants	1	53,218	50,733
Academic Fees and Support Grants	2	32,707	31,726
Research Grants and Contracts	3	28,854	28,700
Other Income	4	36,081	36,660
Endowment and Investment Income	5	2,179	1,653
Total Income		153,039	149,472
EXPENDITURE			
Staff Costs	6	87,271	80,790
Depreciation	12	7,717	7,253
Other Operating Expenses		51,503	50,493
Interest Payable	7	2,986	2,841
Total Expenditure	8	149,477	141,377
SURPLUS ON CONTINUING OPERATIONS BEFORE DISPOSAL OF ASSETS AND TAX	9	3,562	8,095
Profit/(Loss) on disposal of assets	9	1,565	(50)
SURPLUS ON CONTINUING OPERATION AFTER DISPOSAL OF ASSETS BUT BEFORE TAX		5,127	8,045
Taxation	10	(46)	(2)
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		5,081	8,043

Balance Sheets as at 31 July 2005

	Note	2004/05		2003/04	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Tangible Assets	12	171,200	167,881	161,125	159,999
Benefit Arising from the Acquisition of LCAD	13	(3,431)	(3,431)	(3,887)	(3,887)
Investments	14	323	727	316	727
Long-term Loans	15	100	1,881	40	40
Total fixed assets		168,192	167,058	157,594	156,879
Endowment assets	16	1,349	1,349	1,360	1,360
Stocks and Stores in Hand		219	197	193	173
Debtors	17	15,096	15,296	14,863	15,211
Short Term Deposits	18	32,215	31,205	33,392	33,392
Cash at Bank and in Hand		14,640	12,855	10,510	7,219
Total current assets		62,170	59,553	58,958	55,995
Less: Creditors - amounts falling due within one year	19	(43,927)	(41,626)	(36,524)	(34,252)
Net current assets		18,243	17,927	22,434	21,743
Total assets less current liabilities		187,784	186,334	181,388	179,982
Less: Creditors - amounts falling due after more than one year	20	(51,045)	(51,045)	(53,100)	(53,100)
Less: Provisions for liabilities and charges	21	(2,090)	(2,090)	(2,510)	(2,510)
NET ASSETS		134,649	133,199	125,778	124,372
Deferred Capital Grants	22	65,566	64,787	61,765	60,949
Endowments					
Specific	23	1,349	1,349	1,360	1,360
Reserves	24	67,734	67,063	62,653	62,063
TOTAL		134,649	133,199	125,778	124,372

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 2005

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

	Note	2004/05	2003/04
		£'000	£'000
Surplus Before Tax		3,562	8,095
Depreciation	12	7,717	7,253
Benefit on Acquisition of LCAD Released to Income	13	(456)	(148)
Deferred Capital Grants Released to Income	22	(3,430)	(2,933)
Investment Income	5	(2,179)	(1,653)
Interest Payable	7	2,986	2,841
(Increase)/Decrease in Stocks		(26)	101
(Increase)/Decrease in Debtors		(210)	1,033
Increase/(Decrease) in Creditors		7,499	(186)
(Decrease) in provision against impairment in value of investments		(420)	305
Receipt of Donated Equipment		(20)	(30)
Net Cash Inflow from Operating Activities		15,023	14,678

CONSOLIDATED CASH FLOW STATEMENT

	Note	2004/05	2003/04
		£'000	£'000
NET CASH INFLOW FROM OPERATING ACTIVITIES		15,023	14,678
Returns on Investment and Servicing of Finance			
Income from Endowments	23	123	127
Other Interest		1,741	1,256
Interest Paid		(3,011)	(2,802)
		(1,147)	(1,419)
Taxation		(2)	0
Capital Expenditure and Financial Investment			
Payments made to acquire fixed assets		(18,695)	(20,254)
Proceeds from sales of fixed assets		2,429	66
Fixed Asset Investments Acquired		(7)	15
Changes in Fixed Asset Loans		(60)	35
Deferred Capital Grants Received		7,231	21,558
		(9,102)	1,420
NET CASH INFLOW BEFORE USE OF LIQUID RESOURCES AND FINANCING		4,772	14,679
Management of Liquid Resources		1,177	(13,488)
Financing	29	(1,969)	(1,978)
INCREASE/(DECREASE) IN CASH		3,980	(787)

Consolidated Cash Flow Statement

Year Ended 31 July 2005

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2004/05 £'000	2003/04 £'000
INCREASE/(DECREASE) IN CASH IN THE PERIOD		3,980	(787)
Change in Short Term Deposits		(1,177)	13,488
Change in Debt		<u>1,969</u>	1,978
CHANGE IN NET FUNDS		4,772	14,679
Net Deficit at Beginning of the Year	30	(10,888)	(25,567)
NET DEFICIT AT THE END OF THE YEAR	30	<u>(6,116)</u>	<u>(10,888)</u>

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 JULY 2005

	Note	2004/05 £'000	2003/04 £'000
SURPLUS ON CONTINUING OPERATIONS AFTER TAX		5,081	8,043
Appreciation of Endowment Asset Investments	23	88	3
Prior Year's Endowment Income Expended in Current Year	23	(99)	(151)
TOTAL RECOGNISED GAINS RELATING TO THE YEAR		<u>5,070</u>	<u>7,895</u>
Reconciliation			
Opening Reserves and Endowments		64,013	
Total Recognised Gains and Losses for the Year		<u>5,070</u>	
Closing Reserves and Endowments		<u>69,083</u>	

Notes to the Accounts

1 FUNDING COUNCIL GRANTS

	2004/05 £'000	2003/04 £'000
HEFCE Recurrent:		
Teaching	35,370	33,299
Research	12,245	11,346
Other	2,434	3,484
LSC Recurrent	863	939
TTA	688	634
Deferred Capital Grants Released in Year :		
Buildings (Note 22)	718	602
Equipment (Note 22)	900	429
	<u>53,218</u>	<u>50,733</u>

2 ACADEMIC FEES AND SUPPORT GRANTS

Home Students	17,373	17,562
International Students	15,334	14,164
	<u>32,707</u>	<u>31,726</u>

3 RESEARCH GRANTS AND CONTRACTS

Research Councils and Charities	13,066	12,026
Industry and Commerce	4,675	5,178
Governmental	11,113	11,496
	<u>28,854</u>	<u>28,700</u>

Facilities for research with a value of £170,000 (2003/04 - £275,000) were donated to the University, but are not included in the above.

4 OTHER INCOME

	2004/05 £'000	2003/04 £'000
Residences, Catering and Conferences	22,277	21,000
Other income	12,240	14,536
Benefit on acquisition of LCAD - Release to Income (Note 13)	456	148
Released from Deferred Capital Grants	1,108	976
	<u>36,081</u>	<u>36,660</u>

5 ENDOWMENT INCOME AND INVESTMENT INCOME

Transferred from Specific Endowments (Note 23)	222	278
Income from Short-term Investments	1,957	1,344
Income from Sale of Shares	0	31
	<u>2,179</u>	<u>1,653</u>

Notes to the Accounts

6 STAFF COSTS

	2004/05 £'000	2003/04 £'000
Staff Costs :		
Wages and Salaries	72,445	66,978
Social Security Costs	5,825	5,523
Other Pension Costs (Note 31)	8,290	7,386
Exceptional Restructuring Costs	711	903
Total	<u>87,271</u>	<u>80,790</u>
Staff Costs - Operational	86,560	79,887
Staff Costs - Restructuring	<u>711</u>	<u>903</u>
<p>The emoluments of the Vice-Chancellor amounted to £155,400 (2003/04 - £148,000) 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 £21,756 (2003/04 - £20,700).</p>		
Remuneration of other higher paid staff, excluding employer's pension contributions:	No.	No.
£70,000 to £79,999	13	10
£80,000 to £89,999	7	5
£90,000 to £99,999	4	3
£100,000 to £109,999	1	0
	<u>25</u>	<u>18</u>
Average Staff Numbers by Major Category :	No.	No.
Academic	566	560
Research	330	339
Academic Related	392	350
Technical	180	173
Other	1,040	1,068
	<u>2,508</u>	<u>2,490</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.

Notes to the Accounts

7 INTEREST PAYABLE

	2004/05 £'000	2003/04 £'000
Loans not wholly repayable within five years	<u>2,986</u>	<u>2,841</u>

8 ANALYSIS OF 2004/05 EXPENDITURE BY ACTIVITY

Academic Departments	59,663	55,916
Academic Services	10,241	9,066
Research Grants and Contracts	23,192	23,795
Residences, Catering and Conferences	19,140	19,716
Premises	14,430	11,839
Administration and Central Services	15,416	14,032
Other Expenses	<u>7,395</u>	<u>6,973</u>
	<u>149,477</u>	<u>141,337</u>

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 2004	142,623	40,860	28,503	211,986
Additions at cost	10,728	2,713	5,274	18,715
Disposals at cost	<u>(1,005)</u>	<u>0</u>	<u>(1,891)</u>	<u>(2,896)</u>
At 31 July 2005	<u>152,346</u>	<u>43,573</u>	<u>31,886</u>	<u>227,805</u>
Depreciation:				
At 1 August 2004	(30,488)	(1,060)	(19,313)	(50,861)
Charge for the year	(3,605)	(878)	(3,234)	(7,717)
Eliminated on disposals	<u>209</u>	<u>0</u>	<u>1,764</u>	<u>1,973</u>
At 31 July 2005	<u>(33,884)</u>	<u>(1,938)</u>	<u>(20,783)</u>	<u>(56,605)</u>
Net Book Value:				
At 31 July 2005	<u>118,462</u>	<u>41,635</u>	<u>11,103</u>	<u>171,200</u>
At 31 July 2004	<u>112,135</u>	<u>39,800</u>	<u>9,190</u>	<u>161,125</u>
UNIVERSITY				
Cost and valuation:				
At 1 August 2004	141,823	40,860	26,101	208,784
Additions at cost	8,598	2,713	4,851	16,162
Disposals at cost	<u>(1,005)</u>	<u>0</u>	<u>(1,600)</u>	<u>(2,605)</u>
At 31 July 2005	<u>149,416</u>	<u>43,573</u>	<u>29,352</u>	<u>222,341</u>
Depreciation:				
At 1 August 2004	(30,203)	(1,060)	(17,522)	(48,785)
Charge for the year	(3,519)	(878)	(2,961)	(7,358)
Eliminated on disposals	<u>209</u>	<u>0</u>	<u>1,474</u>	<u>1,683</u>
At 31 July 2005	<u>(33,513)</u>	<u>(1,938)</u>	<u>(19,009)</u>	<u>(54,460)</u>
Net Book Value:				
At 31 July 2005	<u>115,903</u>	<u>41,635</u>	<u>10,343</u>	<u>167,881</u>
At 31 July 2004	<u>111,620</u>	<u>39,800</u>	<u>8,579</u>	<u>159,999</u>

Note: Freehold and leasehold buildings with a net book value of £24,413,565 (2003/04 - £21,094,850) and cost of £32,445,663 (2003/04 - £28,683,796) 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 2005, freehold land and buildings at cost included £10,607,634 (2003/04 - £2,957,809) in respect of buildings under construction.

Note: The cost of fixed assets held for use in operating leases amount to £26,000,000 (2003/04 - £26,000,000) with accumulated depreciation of £1,199,452 (2003/04 - £685,401).

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 2005 and at 1 August 2004	<u>5,565</u>
Released to Income and Expenditure Account :	
At 1 August 2004	(1,678)
Release for year (Note 4)	(456)
At 31 July 2005	<u>(2,134)</u>
Net Book Value :	
At 31 July 2005	<u><u>3,431</u></u>
At 31 July 2004	<u><u>3,887</u></u>

14 INVESTMENTS

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Subsidiary Companies (Note 33)	0	479	0	479
Subsidiary investments in spinouts:	75	0	68	0
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><u>323</u></u>	<u><u>727</u></u>	<u><u>316</u></u>	<u><u>727</u></u>

Note: The market value of all shareholdings at 31 July 2005 are not significantly different from those values stated above.

Notes to the Accounts

15 LONG-TERM LOANS

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Loughborough Students Union	100	100	25	25
Charnwood Molecular Ltd	0	0	15	15
Imago @ Loughborough Ltd	0	1,781	0	0
	<u>100</u>	<u>1,881</u>	<u>40</u>	<u>40</u>

Note: The loan granted to Loughborough Students Union is unsecured, interest is linked to base rate and is repayable over the period to 31 October 2016.

Note: The loan granted to Imago @ Loughborough Ltd is unsecured, interest is linked to base rate and is repayable over the period to 31 July 2012.

16 ENDOWMENT ASSET INVESTMENTS (CONSOLIDATED AND UNIVERSITY)

	2004/05 £'000	2003/04 £'000
Balance at 1 August 2004	1,360	1,508
Disposals	(99)	(151)
Appreciation on Revaluation	88	3
Balance at 31 July 2005	<u>1,349</u>	<u>1,360</u>
Quoted Unit Trusts (Unlisted)	1,109	828
Bank Balances	240	532
Total Endowment Asset Investments	<u>1,349</u>	<u>1,360</u>

Notes to the Accounts

17 DEBTORS

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Amounts falling due within one year:				
Trade debtors	14,556	12,813	14,346	13,420
Other debtors	0	0	0	0
Prepayments and Accrued Income	540	466	517	473
Amounts due from Subsidiary Companies	0	2,017	0	1,318
	<u>15,096</u>	<u>15,296</u>	<u>14,863</u>	<u>15,211</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 2005 was £118,652.

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
	<u>32,215</u>	<u>31,205</u>	<u>33,392</u>	<u>33,392</u>

19 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Bank Overdraft	96	0	238	0
Secured Loans	2,058	2,058	1,959	1,959
Unsecured Loans	12	12	25	25
Payments Received on Account	21,731	21,630	18,527	18,477
Trade creditors	14,544	13,976	10,289	10,006
Social Security and Other Taxation Payable	2,302	2,254	2,331	2,231
Accruals and Deferred Income	3,184	1,696	3,155	1,554
	<u>43,927</u>	<u>41,626</u>	<u>36,524</u>	<u>34,252</u>

Notes to the Accounts

20 CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Secured loans repayable by 2028	51,045	51,045	53,087	53,087
Unsecured loans repayable by 2005	-	-	13	13
	51,045	51,045	53,100	53,100
Analysis of Secured and Unsecured Loans:				
Due between one and two years	2,163	2,163	2,094	2,094
Due between two and five years	7,143	7,143	6,904	6,904
Due in five years or more	41,739	41,739	44,102	44,102
	51,045	51,045	53,100	53,100

The Secured Loans are secured on various University campus buildings.

£5M of the above loan is fixed at a rate of 5.865% until December 2011. £5M of the above loan is subject to a collar in the range of 5.085%-7.565% until December 2011. £16M of the above loan is fixed at a rate of 5.5375% until March 2019. Interest on the remaining loans is charged at 0.565% above LIBOR. These loans are repayable by instalments in the period to 3 April 2028.

21 PROVISIONS FOR LIABILITIES AND CHARGES (CONSOLIDATED AND UNIVERSITY)

	Premature Retirement Compensation £'000	Enhanced Pension Costs £'000	Total £'000
At 1 August 2004	787	1,723	2,510
Utilised in year	(920)	(97)	(1,017)
Transfer from Income and Expenditure Account	535	62	597
At 31 July 2005	402	1,688	2,090

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

	31 July 2005	31 July 2004
Discount Rate	5.0%	5.8%
Inflation	2.8%	2.9%

The projected value of the liability under FRS 17 at 31 July 2005 is £1,688,000. 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 2004:			
Buildings	21,096	35,631	56,727
Equipment	3,241	1,797	5,038
Total	24,337	37,428	61,765
Cash Receivable:			
Buildings	4,036	1,153	5,189
Equipment	1,529	513	2,042
Total	5,565	1,666	7,231
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(718)	(997)	(1,715)
Equipment (Notes 1, 3 and 4)	(900)	(815)	(1,715)
Total	(1,618)	(1,812)	(3,430)
At 31 July 2005:			
Buildings	24,414	35,787	60,201
Equipment	3,870	1,495	5,365
Total	28,284	37,282	65,566
UNIVERSITY			
	Funding Council £'000	Other Grants £'000	Total £'000
At 1 August 2004:			
Buildings	21,096	34,815	55,911
Equipment	3,241	1,797	5,038
Total	24,337	36,612	60,949
Cash Receivable:			
Buildings	4,036	1,153	5,189
Equipment	1,529	513	2,042
Total	5,565	1,666	7,231
Released to Income and Expenditure:			
Buildings (Notes 1, 3 and 4)	(718)	(960)	(1,678)
Equipment (Notes 1, 3 and 4)	(900)	(815)	(1,715)
Total	(1,618)	(1,775)	(3,393)
At 31 July 2005:			
Buildings	24,414	35,008	59,422
Equipment	3,870	1,495	5,365
Total	28,284	36,503	64,787

Notes to the Accounts

23 SPECIFIC ENDOWMENTS (CONSOLIDATED AND UNIVERSITY)

	2004/05 £'000	2003/04 £'000
At 1 August	1,360	1,508
Appreciation of Endowment Asset Investments	88	3
Income for Year	123	127
Transferred to Income and Expenditure Account (Note 5)	(222)	(278)
At 31 July	1,349	1,360

24 RESERVES

	£'000	£'000
CONSOLIDATED		
Balance at 1 August 2004:	62,653	54,610
Surplus before Transfers		
Transfers:		
Income and Expenditure Account	5,081	8,043
Balance at 31 July 2005	67,734	62,653
UNIVERSITY		
Balance at 1 August 2004:	62,063	54,203
Surplus before Transfers		
Transfers:		
Income and Expenditure Account	5,000	7,860
Balance at 31 July 2005	67,063	62,063

25 LEASE OBLIGATIONS

	2004/05		2003/04	
	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	6	0	10	0
Between two and five years	0	0	0	0
Over five years	70	70	67	67
	76	70	77	67
Other				
Annual, non-cancellable operating lease commitments in respect of leases expiring:				
Within one year	8	3	13	3
Between one and two years	204	204	0	0
Between two and five years	54	20	242	215
Over five years	0	0	11	11
	266	227	266	229

Notes to the Accounts

26 CAPITAL COMMITMENTS

Provision has not been made for the following capital commitments at 31 July 2005:

	2004/05		2003/04	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
Commitments contracted	12,891	12,891	3,881	3,881
Authorised but not contracted	3,967	3,967	3,774	3,774
	<u>16,858</u>	<u>16,858</u>	<u>7,655</u>	<u>7,655</u>
Guarantees –				
to National Australia Bank Ltd for Imago @ Loughborough Ltd	0	0	0	400
to various Building Societies for staff mortgages	7	7	8	8
to HSBC plc for Imago@Loughborough Ltd	0	500	0	0
to Barclays for purchase of equipment	29	29	0	0
to Barclays for sale of equipment	191	191	0	0
	<u>227</u>	<u>727</u>	<u>8</u>	<u>408</u>

27 CONTINGENT LIABILITIES

Guarantees –

to National Australia Bank Ltd for Imago @ Loughborough Ltd
to various Building Societies for staff mortgages
to HSBC plc for Imago@Loughborough Ltd
to Barclays for purchase of equipment
to Barclays for sale of equipment

0	0
7	7
0	500
29	29
191	191
<u>227</u>	<u>727</u>

Notes: The amount relating to staff mortgage guarantees represents the maximum guaranteed by the University at 31 July 2005.

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

28 HARDSHIP FUNDS (CONSOLIDATED AND UNIVERSITY)

	2004/05		2003/04	
	£'000	£'000	£'000	£'000
Income:				
Excess of Income over Expenditure Brought Forward	44		33	
Funding Council Grants	456		509	
Interest Earned	1	501	2	544
Expenditure:				
Disbursed to Students	(432)		(484)	
Fund Running Costs	(15)	(447)	(16)	(500)
Excess of Income Over Expenditure Carried Forward		<u>54</u>		<u>44</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

	2004/05 £'000	2003/04 £'000
Balance at 1 August 2004	<u>55,084</u>	57,062
Capital Repayments	(1,969)	(1,978)
Balance at 31 July 2005	<u>53,115</u>	<u>55,084</u>
Repayable:		
Within one year	2,070	1,984
Over one year	<u>51,045</u>	<u>53,100</u>
	<u>53,115</u>	<u>55,084</u>

30 ANALYSIS OF CHANGES IN NET FUNDS

	At 1st August 2004	Cash Flows	Other Non-Cash Changes	At 31st July 2005
	£'000	£'000	£'000	£'000
Cash at Bank and In Hand :				
Endowment Assets	532	(292)	0	240
Other	10,510	4,130	0	14,640
Bank Overdraft	(238)	142	0	(96)
	<u>10,804</u>	<u>3,980</u>	<u>0</u>	<u>14,784</u>
Short Term Investments	33,392	(1,177)	0	32,215
Debts Due Within One Year	(1,984)	1,969	(2,055)	(2,070)
Debts Due After One Year	(53,100)	0	2,055	(51,045)
	<u>(10,888)</u>	<u>4,772</u>	<u>0</u>	<u>(6,116)</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 and the Leicestershire County Council (LCC) respectively. The funds are valued by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees or LCC on the advice of the actuaries. In the intervening years, the USS actuary reviews the progress of the USS scheme.

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 from funds voted 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 2004	31 Mar 2001
Investment returns per annum	5.0%	6.30%	7.0%
Salary scale increase per annum	3.7%	4.4%	5.0%
Pension increase per annum	2.7%	2.9%	3.5%
Market value of assets at date of last valuation	£19,938 M	£1,389 M	£142,880 M
Proportion of members' accrued benefits covered by the actuarial value of the assets	101.0%	87.0%	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. As a result of the 2004 valuation, the contribution payable by the employer was increased to 12.3% of pensionable salaries from April 2005. In subsequent years the rate will increase to 13.5% (2006/7) and 14.7% (2007/8).

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:

	2004/05 £'000	2003/04 £'000
Contributions to USS	6,234	5,527
Contributions to LGSS	1,928	1,706
Contributions to TPS	124	134
Contributions to other pension schemes	4	19
Total Pension Cost (Note 6)	8,290	7,386
Outstanding Pension Contributions at 31 July	1,065	959

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 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 2005.

The financial assumptions used by the actuary at 31 July 2005 were:

	2004/05	2003/04	2002/03
	%	%	%
Salary increases	4.3	4.4	4.1
Pension increases	2.8	2.9	2.6
Discount rate	5.0	5.8	5.5
Price increases	2.8	2.9	2.6

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

	2004/05		2003/04		2002/03	
	LONG-TERM RETURN %	FUND VALUE £'000	LONG-TERM RETURN %	FUND VALUE £'000	LONG-TERM RETURN %	FUND VALUE £'000
Equities	7.3	47,782	7.9	38,218	8.0	35,345
Bonds	4.7	10,655	5.4	9,509	5.0	8,037
Property	5.4	6,085	6.7	5,578	6.0	4,549
Cash	4.5	2,287	4.5	1,303	4.5	1,393
		<u>66,808</u>		<u>54,608</u>		<u>49,324</u>

The following amounts at 31 July 2005 were measured in accordance with the requirements of FRS 17.

	2004/05	2003/04	2002/03
	£'000	£'000	£'000
Loughborough University's estimated asset share	66,808	54,608	49,324
Present value of Loughborough University's scheme liabilities	(83,481)	(72,648)	(67,173)
Deficit in the scheme - Net pension liability	<u>(16,673)</u>	<u>(18,040)</u>	<u>(17,849)</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 2005 would be as follows:

	2004/05	2003/04
	£'000	£'000
Net consolidated assets excluding pension liability	134,649	125,778
Pension liability	<u>(16,673)</u>	<u>(18,040)</u>
Net consolidated assets including pension liability	117,976	107,738
Consolidated reserve excluding pension liability	67,734	62,653
Pension reserve	<u>(16,673)</u>	<u>(18,040)</u>
Consolidated income and expenditure account reserve	51,061	44,613

Notes to the Accounts

31 PENSION SCHEMES (Continued)

Additional disclosures required for FRS 17 for the year ended 31 July 2005.

Analysis of the amount that would be charged to operating surplus	2004/05	2003/04
	£'000	£'000
Current service cost	2,341	2,648
Past service cost	191	93
Impact of settlements and curtailments	4	-
Total operating charge	<u>2,536</u>	<u>2,741</u>

Analysis of the amount that would be credited to other finance income	2004/05	2003/04
	£'000	£'000
Expected return on pension scheme assets	3,977	3,576
Interest on pension scheme liabilities	(4,241)	(3,747)
Net return	<u>(264)</u>	<u>(171)</u>

Analysis of the amount that would be recognised in statement of total recognised gains and losses (STRGL)	2004/05	2003/04
	£'000	£'000
Actual return less expected return on pension scheme assets	7,782	1,017
Experience gains and losses arising on the scheme liabilities	3,649	-
Changes in assumptions underlying the present value of the scheme liabilities	(9,364)	(87)
Actuarial deficit recognised in STRGL	<u>2,067</u>	<u>930</u>

Movement in surplus in the year	2004/05	2003/04
	£'000	£'000
Deficit in scheme at beginning of the year	(18,040)	(17,849)
Movement in the year:		
Current service cost	(2,341)	(2,648)
Contributions	2,100	1,791
Past service costs	(191)	(93)
Other finance income	-	-
Net return on assets	(264)	(171)
Impact of settlements and curtailments	(4)	-
Actuarial loss	2,067	930
Deficit in the scheme at end of the year	<u>(16,673)</u>	<u>(18,040)</u>

History of experience gains and losses	2004/05	2003/04	2002/03	2001/02
	£'000	£'000	£'000	£'000
Difference between the expected and actual return on scheme assets:				
Amount (£'000)	7,782	1,017	(740)	(10,302)
Percentage of scheme assets	11.6%	1.9%	(1.5%)	(22.6%)
Experience gains and losses on scheme liabilities:				
Amount (£'000)	3,649	-	20	891
Percentage of the present value of the scheme liabilities	4.4%	0.0%	0.0%	1.6%
Total amount recognised in statement of total recognised gains and losses:				
Amount (£'000)	2,067	930	(8,500)	(5,745)
Percentage of the present value of the scheme liabilities	2.5%	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 31.7.05 (due to)/from the University £'000
Members of Council			
Sir David Wallace is a Director of Youth Sport Trust	172	326	(126)
J Mutton is Principal of Loughborough College	198	64	(110)
Sir John Jennings is Deputy Chairman of MITIE group plc	52	88	8
Sir John Jennings is Chairman of Intelligent Energy Ltd	328	0	(281)
S Proffitt is Site Manager of AstraZeneca R&D Charnwood	514	0	(41)
Dr R Parry-Jones is Group Vice-President of The Ford Motor Company	1,018	24	(232)
Mrs J A M Strong is Director of Education at Leicestershire County Council	105	13	(25)
Directors of subsidiaries & senior employees			
H M Pearson is a Director of UCAS	0	96	1
H M Pearson is a Governor of Loughborough College	198	64	(110)

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.

—

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 University in applicable specialist areas.
Loughborough University Consultants Ltd (dissolved 18 January 2005)	
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	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	Provision of conference facilities
Automotive Education Ltd (dissolved 5 July 2005)	Dormant company, not traded

Consolidated Five Year Results

INCOME AND EXPENDITURE ACCOUNT

	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000
Income	153,039	149,472	135,771	121,709	114,788
Expenditure	(149,477)	(141,377)	(132,706)	(119,688)	(111,682)
Surplus Before Transfers, Disposal of Assets And Tax	3,562	8,095	3,065	2,021	3,165

BALANCE SHEET

	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000
Fixed Assets and Investments	168,192	157,594	145,896	91,817	77,958
Endowment Assets	1,349	1,360	1,508	1,634	1,796
Net Current Assets	18,243	22,434	15,953	15,327	16,769
Less Amounts Due After More Than One Year:					
Creditors Due After More Than One Year	(51,045)	(53,100)	(55,075)	(26,312)	(27,321)
Provisions	(2,090)	(2,510)	(2,205)	(2,643)	(2,439)
Total Net Assets	134,649	125,778	106,077	79,823	66,763
Represented by:					
Deferred Capital Grants	65,566	61,765	49,959	27,397	16,367
Specific Endowments	1,349	1,360	1,508	1,634	1,796
Reserves	67,734	62,653	54,610	50,792	48,600
Total Funds	134,649	125,778	106,077	79,823	66,763

CASH FLOW STATEMENT

	2004/05 £'000	2003/04 £'000	2002/03 £'000	2001/02 £'000	2000/01 £'000
Net Cash Inflow from Operating Activities	15,023	14,678	13,825	9,026	3,381
Returns on Investment and Servicing of Finance	(1,147)	(1,419)	(762)	161	(127)
Taxation	(2)	0	11	(39)	(36)
Capital Expenditure and Financial Investment	(9,102)	1,420	(36,064)	(11,937)	(8,994)
Net Cash Inflow/(Outflow) Before Management of Liquid Resources and Financing	4,772	14,679	(22,989)	(2,789)	(5,776)
Management of Liquid Resources	1,177	(13,488)	(533)	4,437	(557)
Financing	(1,969)	(1,978)	29,629	(1,061)	4,470
Increase/(Decrease) In Cash Balances	3,980	(787)	6,107	587	(1,863)