



THE UNIVERSITY *of* LIVERPOOL

Chancellor

The Right Honourable The Lord Owen CH

Vice Chancellor

Professor J. Drummond Bone, MA, FRSA

Pro-Vice Chancellors

Professor Kelvin Everest, BA, PhD
Professor Chris Gaskell, BVSc, PhD, DVR, MRCVS
Professor Jon Saunders, BSc, PhD
Professor Graham Dockray, BSc, PhD

Chief Operating Officer

Mr John C. Latham, BA

Director of Finance

Mr Michael G.S. Yuille, BAcc CA

Professional Advisers

Auditors	PricewaterhouseCoopers LLP, Liverpool
Bankers	Barclays Bank plc, Liverpool
Lawyers	Pinsent Masons

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The Council of the University

Names	Membership of key committees
<i>The Chancellor</i> The Right Honourable The Lord Owen CH, MBBChir, MA, FRCP	
<i>The Pro Chancellor</i> Michael Potts, DL, FRSA, FCA	4
<i>The Vice Chancellor</i> Professor J. Drummond Bone, MA, FRSA	1,2,3
<i>The President of Council</i> Mark Blundell, BA	1,2,3
<i>The Treasurer</i> David McDonnell, CBE, DL, FCA, FRSA	1,3
<i>The Deputy Treasurer</i> Neil Kemsley, BCom, ACIS	1,2,3
<i>The Pro-Vice Chancellors:</i>	
Professor Kelvin Everest, BA, PhD	1,2,3
Professor Chris Gaskell, BVSc, PhD, DVR, MRCVS	1,3
Professor Jon Saunders, BSc, PhD	1,3
Professor Graham Dockray, BSc, PhD, HonFRCP, FMedSci, FRS	1,3
<i>2002-2005</i> John Flamson, BA, MCD, MRTPI, MIMgt	2,4
<i>2003-2005</i> Mark Blundell, BA (President of Council) John Roberts, CBE, BEng, HonLLD, CEng, DMS, FIEE, FCCA	1,2,3
<i>2003-2006</i> M. Frank Cogley, BA, PGCE James Keaton, BSc, HonLLD, FSDC, FBIM Judith Greensmith, DL, BCom	1 1,2,
<i>2004</i> Christine McCann, BA, MSc	
<i>2004-2007</i> Guy Lance, BSc, CEng, MICE Nirmala Pillay, PhD Paula Ridley, OBE, JP, DL, HonLLD, MA	4 4
<i>2005</i> David Linnell, BA (from March 2005) Thomas O'Brien, BSc, MA, DPA, ExecDev (from January to July 2005) Patrick Reid, BSc, PhD, MBA, MCIM, MIOd (from March 2005)	

The Council of the University - *continued*

Names	Membership of key committees
<i>2002-2005</i> Professor Nicholas Kuszniir, BSc, PhD Professor Ole Petersen, MD	
<i>2003-2006</i> Professor Anu Arora, LLB, PhD, Barrister	2
<i>2004-2006</i> John Richard Fry, MA, PhD, CPhys, MInstP	
<i>2004-2007</i> Professor David Bacon, PhD, DSc, FInstP, FIM, CEng, CPhys Professor Dinah Birch, BA, DPhil Helena Hurt Pinsent, BA (2004-08)	
<i>2004-2005</i> David Winstanley (from June 2004 – June 2005) M. Irfan Zaman, BA (from June 2005)	2 2

The key committees of the University are:-

- (1) Planning & Resources Committee
- (2) Nominations Committee
- (3) Remuneration Committee
- (4) Audit Committee

Further information on these Committees is given in the Corporate Governance Statement on page 6.

Responsibilities of the Council of the University

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

Working through its Planning and Resources Committee and Audit Committee, the Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the Charter and Statutes, the Statement of Recommended Practice: Accounting for Further and Higher Education, and all relevant accounting and financial reporting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its designated office holder (the Vice-Chancellor), is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgments and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures being disclosed and explained in the financial statements;
- they are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future and for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The 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 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 prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure. The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:
 - clear definitions of the responsibilities of, and the authority delegated to all heads of departments;
 - a comprehensive short and medium planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
 - regular reviews of academic performance and quarterly reviews of financial results involving variance reporting and updates of forecast outturns;
 - clearly defined and formalised requirements for approval and control of expenditure;
 - a formalised treasury management policy;
 - a comprehensive Financial Handbook detailing financial controls and procedures, approved by the Audit Committee and Council; and
 - a professional Internal Audit team whose programme of work is approved annually by the Audit Committee.

Corporate Governance Statement

The Council of the University is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss. The Audit Committee, on behalf of Council, has reviewed the effectiveness of the University's system of internal financial control. Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

The Council is satisfied that there is an ongoing process for identifying, evaluating and managing the University's significant risks. This process is regularly reviewed by the Council. It accords with the internal control guidance for directors of companies as set out in the Combined Code as deemed appropriate for higher education and with the HEFCE 'Best Practice' guidance on Risk Management and broad compliance with the Committee of University Chairs (CUC) Guidance.

The Council and the University's Senior Management Team receive reports setting out key performance and risk indicators. Council also receives regular reports from Audit Committee and Safety Committee setting out, where necessary, recommendations for change and improvement. The Council receives these reports rather than a process of reporting by exception to allow consideration of risk and control and thereby obtain a relevant degree of assurance. Council's view of the effectiveness of the system of internal control is also informed by the work of the executive officers of the University who have responsibility for the development and maintenance of the internal control framework.

The Council comprises lay and academic members appointed under the Statutes of the University, the majority of whom are non-executive (see pages 3 & 4 for members). The roles of President and Vice-President of the Council are separated from the role of the University's Chief Executive, the Vice-Chancellor. The matters specially reserved to the Council for decision are set out in the Statutes of the University; by custom and under the Financial Memorandum with the Higher Education Funding Council for England and the Teacher Training Agency, the Council has the responsibility for the ongoing strategic direction of the University, approval of major developments and the receipt of regular reports from Executive Officers on the day to day operations of its business and of its subsidiary companies. The Council meets four times each year and has several Committees, the key ones being Planning and Resources Committee, a Nominations Committee, a Remuneration Committee and an Audit Committee. All of these Committees are formally constituted with terms of reference and contain significant lay member representation. Council membership of the key committee is shown on pages 3 & 4.

The Planning and Resources Committee, inter alia, recommends to Council the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Nominations Committee seeks and considers nominations for potential lay members of the Council.

The Remuneration Committee undertakes and determines the review of all professorial and senior administrative staff salaries, and the approval of any proposal for voluntary severance or early retirement of the most senior staff.

The Audit Committee, which meets quarterly, is responsible for meeting with the External Auditors to discuss their audit findings, and with the Internal Auditors to consider detailed internal audit reports and recommendations for the improvement of the University's systems of internal control, together with management's response and implementation plans. They also receive and consider reports from the Higher Education Funding Council for England and the National Audit Office as they affect the University's business and monitor adherence with the regulatory requirements. They review the University's annual financial statements together with the accounting policies. They advise the Council on the appointment and remuneration of the Internal and External Auditors. Whilst senior executives and lay officers attend meetings of the Audit Committee as necessary, they are not members of the Committee. The Committee may meet with the Internal and External Auditors on their own for independent discussions.

Report of the Treasurer

I am pleased to report on another successful year for the University.

Financial Highlights

	2005 £000	2004 £000
Total Income	244,742	233,701
Total Expenditure	233,904	223,356
Surplus for the Year	<u>10,838</u>	<u>10,345</u>

Total income was 4.7% up on the previous year and the actual outturn was also better than budget. Total expenditure rose by 4.7%.

The University has continued to grow its income from externally funded research, recording an increase of £2.4 million to a total of just under £61 million. Already, in the current financial year, there are encouraging signs that this growth can be sustained, thus providing returns on the increased investment by the University in academic developments. Income from overseas tuition fees fell slightly in the year, but this is, somewhat unusually, encouraging as other institutions in the UK experienced much greater decreases in income. Early indications for the current year show recruitment levels down again, possibly due to the well publicised visa difficulties for overseas students and to changes in the Chinese market.

In terms of home recruitment, all targets were met for 2004-05 and income from this source was slightly ahead of budget. The attractiveness of the University to students from the UK/EU remains strong.

Endowment income and interest receivable was nearly 20% up on 2004 at £6.9 million

Expenditure on wages and salaries grew by 7.3% in the year, an increase of just under £10 million. The increase is a combination of the annual salary award of just over 3%, promotions, increments and changes in pension and national insurance costs, together with some volume changes. Other operating expenses rose by £2.2 million, an increase of just under 3%, reflecting tight control on these costs. Depreciation was £1.4 million less than 2004.

Fixed Assets

During the year additions of £13.3 million were made to fixed assets. Of that total, additions to freehold land and buildings amounted to £10.9 million, leasehold land and buildings £0.2 million, with the balance being additions to equipment assets. The principal additions to land and buildings included expenditure on the refurbishment of Engineering, the development of the new visitor centre at Ness Gardens, the completion of the Sports Centre and a range of smaller projects. The University is continuing to invest in its estate and infrastructure and going forward has capital commitments totalling £134 million, as set out in note 13 to the accounts. Recently, the University completed the acquisition of Neptune Corporate Developments Limited and through it the ownership of the Foundation Building on Brownlow Hill, opposite the Victoria Building, the original home of the University. The new building will house the principal administrative functions of the University. The acquisition was funded from the sale of fixed asset investments on the back of the rising stock market and this gave rise to the exceptional gain of £2.3 million shown on the face of the Income and Expenditure account.

Endowment Assets

The past financial year has seen continued, and strong, recovery in global stock markets. The University's endowments have had a very good year, experiencing an overall increase of just over 20%, well ahead of the rate of inflation. In addition just under £2.7 million of new money was added.

Report of the Treasurer - *continued*

The performance of our fund managers continues to be monitored by the Investments Committee against targets set annually. In the year under review, both managers met their performance targets. The Investments Committee also monitors adherence to the University's ethical investment policy, described further below.

Creditors Policy

The University aims to pay all of its suppliers promptly. The terms of payment of the University are 30 days from the date of invoice but specific terms and conditions can be agreed for certain suppliers if required. As at 31st July 2005 the University's trade creditors outstanding represented approximately 32 days (2004: 33 days) purchases.

Equal Opportunities Policy

The aim of the University's policy is to ensure that no job applicant or member of staff receives less favourable treatment on the grounds of disability, sex, marital status, religion, race, colour, nationality, or ethnic or national origins, or is disadvantaged by conditions or requirements which cannot be shown to be justifiable. Selection criteria and the procedures are reviewed to ensure that individuals are selected, promoted and treated on the basis of their relevant merits and abilities. All members of staff will be given equal opportunity, and where appropriate, special training to progress within the University. The University is committed to ensuring that this policy remains fully effective.

Ethical Investment Policy

It is the role of the Council to set out the ethical platform on which the University's endowment asset investments are managed. The Council instructs its investment managers, through the Investments Committee, to invest University funds only with those companies who meet the criteria set for ethical investment. It is the role of the Investments Committee to maximise the potential returns on investments within such restrictions as established by Council. Fund Managers report regularly to the Investments Committee on actions they have taken relating to socially responsible investing. The University's policy is reviewed annually and was last reviewed in November 2005.

DAVID McDONNELL CBE DL FCA FRSA
Treasurer

Auditors' Report

Independent auditors' report to the Council of The University of Liverpool

We have audited the financial statements which comprise the consolidated Income and Expenditure Account, the Balance Sheets, the consolidated Cash Flow Statement, the Statement of Consolidated Total Recognised Gains and Losses and the related notes which have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Governing Council and auditors

The Governing Council's responsibility for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England, the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable United Kingdom law and accounting standards is set out in the Statement of the Governing Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the Governing Council of the institution in accordance with the Statutes of the University and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the institution, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the University's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England and with the funding agreement with the Teacher Training Agency. We also report to you if, in our opinion, the institution has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the Financial Statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Treasurer's report and the Corporate Governance statement.

We also review the statement of internal control included as part of the Corporate Governance statement and comment if the statement is inconsistent with our knowledge of the institution. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board and the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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.

Auditors' Report - *continued*

Opinion

In our opinion:

- i. the financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2005, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- ii. in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency and grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received;
- iii. in all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memorandum (03/54) with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Liverpool

Notes

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

Consolidated Income and Expenditure Account

for the year ended 31 July 2005

	Note	2004-2005 £000	2003-2004 £000
Income			
Funding Council Grants	2	88,100	83,699
Academic fees and support grants	3	44,189	42,027
Research grants and contracts	4	60,974	58,585
Other operating income	5	44,562	43,614
Endowment income and interest receivable	6	6,917	5,776
Total income		244,742	233,701
Expenditure			
Staff costs	9	143,661	133,854
Other operating expenses	7	81,643	79,461
Depreciation	11	8,248	9,670
Interest payable	7	352	371
Total expenditure		233,904	223,356
Surplus on continuing operations after depreciation of assets but before profit on sale of fixed asset investments and tax		10,838	10,345
Profit on the sale of Fixed Asset Investments		<u>2,284</u>	<u>-</u>
Surplus on continuing operations after depreciation of assets and disposal of assets but before tax		13,122	10,345
Taxation	8	-	(2)
Surplus on continuing operations after depreciation of assets and disposal of assets and tax		13,122	10,347
Transfer (to)/from accumulated income within specified endowments		<u>(803)</u>	<u>284</u>
Surplus for the year retained within general reserves		12,319	10,631

- All operations are continuing.
- There is no difference between the retained surplus shown above and its historical cost equivalent.
- The notes on pages 16 to 34 form an integral part of these financial statements.

Consolidated Balance Sheet

as at 31 July 2005

	Note	2005 £000	2004 £000
Fixed Assets			
Tangible assets	11	162,690	157,622
Investments	14	12,651	10,333
		<u>175,341</u>	<u>167,955</u>
Endowment assets	15	107,705	89,337
Current assets			
Stocks and stores		555	469
Debtors and prepayments	17	37,439	35,870
Cash in hand, at bank and on deposit		61,748	56,253
		<u>99,742</u>	<u>92,592</u>
Creditors: Amounts falling due within one year	18	<u>(45,530)</u>	<u>(43,062)</u>
Net current assets		<u>54,212</u>	<u>49,530</u>
Total assets less current liabilities		<u>337,258</u>	<u>306,822</u>
Creditors: Amounts falling due after more than one year	19	<u>(4,374)</u>	<u>(4,591)</u>
Net assets		<u>332,884</u>	<u>302,231</u>
Represented by:			
Deferred capital grants	20	98,563	98,597
Endowments			
Specific	16	76,646	63,133
General	16	31,059	26,204
		<u>107,705</u>	<u>89,337</u>
Reserves			
Revaluation reserve	21	2,630	2,630
Income and expenditure	22	123,986	111,667
		<u>126,616</u>	<u>114,297</u>
Total funds		<u>332,884</u>	<u>302,231</u>

The financial statements on pages 11 to 34 were approved by the Council on 14th December 2005 and signed on its behalf by:

D. McDONNELL
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S.YUILLE
Director of Finance

University Balance Sheet

as at 31 July 2005

	Note	2005 £000	2004 £000
Fixed assets			
Tangible assets	12	161,744	156,601
Investments	14	17,202	14,884
		178,946	171,485
Endowment assets	15	107,705	89,337
Current assets			
Stocks and stores		543	453
Debtors and prepayments	17	39,726	37,223
Cash in hand, at bank and on deposit		61,699	55,850
		101,968	93,526
Creditors: Amounts falling due within one year	18	(50,894)	(47,225)
Net current assets		51,074	46,301
Total assets less current liabilities		337,725	307,123
Creditors: Amounts falling due after more than one year	19	(4,255)	(4,472)
Net assets		333,470	302,651
Represented by:			
Deferred capital grants	20	98,563	98,597
Endowments			
Specific	16	76,646	63,133
General	16	31,059	26,204
		107,705	89,337
Reserves			
Revaluation reserve	21	2,630	2,630
Income and expenditure	22	124,572	112,087
		127,202	114,717
Total funds		333,470	302,651

The financial statements on pages 11 to 34 were approved by the Council on 14th December 2005 and signed on its behalf by:

D. McDONNELL
Treasurer

J.D. BONE
Vice-Chancellor

M.G.S.YUILLE
Director of Finance

Consolidated Cash Flow Statement

for the year ended 31 July 2005

	Notes	2004-2005 £000	2003-2004 £000
Cash flow from operating activities	24	8,203	12,973
Returns on investments and servicing of finance	25	6,565	5,405
Taxation	8	-	2
Capital expenditure and financial investment	26	(1,981)	(8,729)
Management of liquid resources	27	13,309	(3,079)
Financing	28	(195)	(177)
		—	—
Increase in cash in the period		<u>25,901</u>	<u>6,395</u>
Reconciliation of net cash flow to movement in net funds/(debt)			
Increase in cash in the period		25,901	6,395
Cash (outflow)/inflow from liquid resources		(13,309)	3,079
Change in net debt resulting from cash flows		<u>195</u>	<u>177</u>
Movement in net funds in period		12,787	9,651
Net funds at 1 August		58,777	49,126
		—	—
Net funds at 31 July	29	<u>71,564</u>	<u>58,777</u>

Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2005

	2005 £000	2004 £000
Surplus on continuing operations after depreciation of assets and disposal of assets and tax	13,122	10,347
Unrealised surplus on revaluation of fixed assets	-	285
Other movements direct from reserves	(803)	125
	-----	-----
Movement in income and expenditure reserves (note 22)	12,319	10,757
Appreciation of Endowment Asset Investments	15,678	4,020
New endowments	2,690	1,893
Endowment balances utilised	-	(1,453)
	-----	-----
Total recognised gains relating to the year	30,687	15,217
	-----	-----
Reconciliation		
Opening reserves and endowments	203,634	188,417
Total recognised gains for the year	30,687	15,217
	-----	-----
Closing reserves and endowments	234,321	203,634
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Notes to the Accounts

1 Statement of Accounting Policies

The financial statements have been prepared on the historical cost basis of accounting modified for the valuation of certain assets and are in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education (July 2003) and with relevant United Kingdom Accounting Standards. The principal accounting policies, which have been applied consistently, are set out below:

(a) **Basis of consolidation**

The consolidated financial statements include the University and its subsidiary undertakings (as detailed in note 14) for the year ended 31 July 2005. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS2, the activities of the student union have not been consolidated because the University does not control those activities.

(b) **Recognition of income**

Income is recognised in the period for which it is receivable.

Non-recurrent grants received or receivable to fund the acquisition of fixed assets are treated as deferred capital grants and released to income in line with the depreciation over the useful life of the assets to which the income relates.

The financial statements include research grants and contracts income and expenditure managed through the Liverpool School of Tropical Medicine and these are also included in that institution's financial statements.

(c) **Foreign currencies**

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

(d) **Tangible fixed assets**

These comprise the cost of land, buildings and equipment. Original furniture, fixtures, fittings and equipment included in the construction of a building, are capitalised and depreciated at 25% per annum on a straight-line basis. The cost of land is not depreciated.

Equipment costing over £25,000 is capitalised. Where funded by research grants, it is depreciated over the initial life of the grant, otherwise over 4 years.

Depreciation is provided on buildings, using the straight-line method, on the following basis:

- (i) assets purchased prior to 1970: 2% per annum over 50 years;
- (ii) assets purchased since 1970: according to anticipated useful life, in the range 30–50 years;
- (iii) assets acquired on finance lease: over the shorter of the lease term or useful life of the asset.

Notes to the Accounts - *continued*

(e) **Leases**

Leasing agreements which transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under current and long-term liabilities. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against surplus in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic life of equivalent owned assets.

Rentals paid under operating leases are charged to the income and expenditure account on a straight line basis over the lease term.

(f) **Works of art**

The University owns a considerable number of works of art most of which have been donated or bequeathed to the University. These works of art are not included in the financial statements, because it is considered that no meaningful value can be attributed to them, since very few could be sold by the University due to the restrictive nature of the acquisition.

(g) **Stock**

Stock is stated at the lower of cost and net realisable value except for stock at Wood Park Farm, which has been valued at market value.

(h) **Investments**

Listed investments are stated at market value. Investments in subsidiaries or in companies in which the University has been allotted shares are shown at cost. Investment properties were revalued at 31 July 2001 by external professionally qualified valuers.

Investments are reviewed for impairment to their value if there is any indication that impairment has occurred.

Increases in value over the original cost are credited to the revaluation reserve. Any deficit on revaluation which is not offset by amounts previously credited to and retained in the revaluation reserve in respect of that asset are written off to the Income and Expenditure Account.

(i) **Taxation**

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 (ICTA) 1988. Accordingly the University, but not its subsidiary companies, is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 505 of the ICTA1988 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.

The University group receives no similar exemption in respect of Value Added Tax.

(j) **Deferred taxation**

Deferred taxation is provided on timing differences, arising from the different treatment of items for accounting and taxation purposes, which are expected to arise in the future, calculated at the rates at which it is expected that tax will arise.

Notes to the Accounts - *continued*

(k) **Pensions**

The two principal pensions schemes for University staff are the Universities Superannuation Scheme (USS) and the University of Liverpool Pension Fund (ULPF). Both schemes are defined benefit schemes which are externally funded and contracted out of the State Second Pension (S2P). The funds are valued every three years by a professionally qualified independent actuary using the projected unit method, the rates of contribution payable being determined by each fund's trustee on the advice of the actuary. In the intervening years, the actuary reviews the progress of the scheme. Pension costs are assessed in accordance with the advice of the actuary, based on the latest actuarial valuation of the scheme, and are accounted for on the basis of charging the cost of providing pensions over the period during which the institution benefits from the employees' services (see also note 30).

INCOME

	2004-2005	2003-2004
	£000	£000
2 Funding Council Grants		
Recurrent grant - HEFCE	78,057	75,776
Specific grants	7,086	4,615
Deferred capital grant released in year (see note 20)	2,957	3,189
Teacher Training Agency	-	119
	<hr/> 88,100 <hr/>	<hr/> 83,699 <hr/>
3 Academic fees and support grants		
Home/EU students	25,267	23,544
Overseas students	16,908	17,156
Continuing education	141	129
Special courses	1,578	909
Support grants	295	289
	<hr/> 44,189 <hr/>	<hr/> 42,027 <hr/>

Notes to the Accounts - *continued*

INCOME - continued

	2004-2005 £000	2003-2004 £000
4 Research grants and contracts		
Income		
Research grants	33,677	32,669
Research contracts	27,297	25,916
	-----	-----
Total income	60,974	58,585
	-----	-----
Expenditure		
Research Grants	27,154	26,455
Research Contracts	23,054	22,822
	-----	-----
Total expenditure	50,208	49,277
	-----	-----
Contribution to indirect costs	10,766	9,308
	-----	-----
5 Other operating income		
Residences and catering	11,425	11,038
Health Authorities	6,169	7,187
Other services	12,365	12,133
Donations	203	514
Other income	14,400	12,742
	-----	-----
	44,562	43,614
	-----	-----
6 Endowment income and interest receivable		
Income from specific endowments	1,511	1,486
Income from general endowments	1,783	1,682
Income from short term deposits	3,401	2,200
Other investment income	222	408
	-----	-----
	6,917	5,776
	-----	-----

Notes to the Accounts - *continued*

EXPENDITURE

	Staff	Other Op Exp & Interest	Depreciation	Total	2004 Total
	£000	£000	£000	£000	£000
7 Analysis of Expenditure by Activity					
Academic departments	74,906	16,240	1,333	92,479	87,402
Research grants and contracts	27,747	22,462	2,028	52,237	52,213
Academic services	7,471	4,457	327	12,255	12,308
General educational expenditure	3,419	5,225	-	8,644	7,805
Maintenance of premises	7,470	12,415	4,009	23,894	21,522
Administration and central services (1)	8,800	5,562	25	14,387	12,208
Students & staff facilities & amenities	1,446	2,402	-	3,848	2,915
Residences and catering (2)	4,718	6,068	462	11,248	11,390
Severance costs and unfunded pensions	1,706	-	-	1,706	2,619
Miscellaneous expenditure	192	1,341	8	1,541	2,220
Other services rendered	5,786	5,823	56	11,665	10,754
	<u>143,661</u>	<u>81,995</u>	<u>8,248</u>	<u>233,904</u>	<u>223,356</u>

- (1) Included within Administration and Central Services are costs in respect of professional services as follows:

	2004-2005 £000	2003-2004 £000
PricewaterhouseCoopers LLP - Audit Fee	45	41
- University	4	35
- Prior year	14	13
- Subsidiaries	51	22
- Taxation, consultancy and accountancy services	14	32
- Grant certification fee	204	191
KPMG LLP - Internal Audit	76	-
- Taxation, consultancy and accountancy services	24	-
Robson Rhodes - Taxation, consultancy and accountancy services		

- (2) Residences and Catering 'Other Operating Expenses' includes interest payable of £351,763 (see also note 25)

	2004-2005 £000	2003-2004 £000
8 Taxation		
United Kingdom corporation tax at 30%	-	(2)
	<u>-</u>	<u>(2)</u>

Notes to the Accounts - *continued*

EXPENDITURE - *continued*

	2004-2005 £000	2003-2004 £000
9 Staff costs		
Staff costs were:		
Salaries	118,256	110,127
Social security costs	9,827	9,095
Pension costs (note 30)	15,578	14,632
	<hr/> 143,661	<hr/> 133,854
Emoluments of the Vice-Chancellor, including benefits in kind and pension contribution	<hr/> 210	<hr/> 188

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to USS are paid at the same rate as for other academic staff and amounted to £25,200 (2004: £22,562)

Compensation for loss of office paid to members of staff earning in excess of £50,000 per annum	73	61
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	Number	Number
Staff numbers by major category		
Academic/Clinical	2,273	2,167
Technical	476	458
Clerical	726	720
Other	458	468
	<hr/> 3,933	<hr/> 3,813

Remuneration bands of other higher paid staff, excluding pension costs but including payments made on behalf of the NHS in respect of staff with contracted clinical responsibilities

£70,000 – £79,999	36	51
£80,000 – £89,999	21	28
£90,000 – £99,999	15	8
£100,000 – £109,999	15	11
£110,000 – £119,999	6	5
£120,000 – £129,999	7	14
£130,000 – £139,999	8	4
£140,000 – £149,000	3	5
£150,000 – £159,000	6	1
Over £160,000	17	1

Notes to the Accounts - *continued*

EXPENDITURE - continued

10 Related party transactions

Due to the nature of the University's operations and the composition of its Council (being drawn from local public and private sector organisations) and senior management team, it is inevitable that transactions will take place with organisations in which a member of Council or the senior management team may have an interest. All such transactions are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. It is noted that the following transactions are in this category. The value as reflected in the University accounts is shown:

	Income	Expenditure	Balances at 31.7.05 due to (from) the University
	£000	£000	£000
Professor J.D. Bone, trustee of Rosemary Young Persons Housing Trust which leases Melville Grove residences to the University	-	548	(4,472)
M.D. Carr, member of Royal Liverpool and Broadgreen University Hospital Trust, which funds posts and research grants and contracts and of accommodation occupied by the University	3,651	2,055	1,285
Professor J. Saunders and Miss C.M. Jones, members of the governing body of the Liverpool School of Tropical Medicine, which funds posts and research grants and contracts and receives a grant from the University	7,688	10,875	(264)
Mrs S.J. Rutherford, member of the Royal Liverpool Childrens (NHS) Trust - Alder Hey, which funds posts and research grants and contracts and of accommodation occupied by the University	1,112	20	180
M.D. Carr, non-executive director of Midas Capital Partners Ltd which manages some of the University's endowment assets	-	169	-

Notes to the Accounts - *continued*

BALANCE SHEET

11 Consolidated Tangible Fixed Assets

	Land and Buildings			Equipment	Total
	Freehold £000	Leasehold £000	Finance Lease £000	£000	£000
Cost at 1 August 2004	174,547	19,282	5,757	30,261	229,847
Additions in the year at cost	10,890	233	-	2,193	13,316
Less: Disposals during the year	-	-	-	3,418	3,418
Cost at 31 July 2005	185,437	19,515	5,757	29,036	239,745
Accumulated Depreciation					
At 1 August 2004	42,038	6,182	1,377	22,628	72,225
Charge for the year	3,679	369	202	3,998	8,248
Less: Eliminated on disposals	-	-	-	3,418	3,418
Depreciation at 31 July 2005	45,717	6,551	1,579	23,208	77,055
Net Book Value					
31 July 2005	139,720	12,964	4,178	5,828	162,690
1 August 2004	132,509	13,100	4,380	7,633	157,622

The University has freehold and leasehold interests in a wide range of properties including academic buildings, student residences and other associated properties. Land and buildings with a net book value of £75.8m, and a cost of £106.9m have been funded from Treasury sources; should these buildings be sold, the University would have to use the proceeds in accordance with the Financial Memorandum with the Higher Education Funding Council for England or surrender them to HM Treasury. The University has granted a long leasehold interest in a small part of its estate to Rosemary Young Persons Charitable Housing Ltd. (a charity), on which new student accommodation has been built. It has been agreed that the University will lease back this accommodation, with an option to purchase after 25 years (in the year 2019). This is the property to which the finance lease relates.

The insured value of the buildings is £686 million.

Included in the net book value of leasehold assets is a net sum of £12.5 million representing grant-aided expenditure on the Royal Liverpool University Hospital and the Dental Hospital, the title of which is vested in the Secretary of State for Social Services and for which the University has been granted a long lease.

Notes to the Accounts - *continued*

BALANCE SHEET - continued

12 University Tangible Fixed Assets

	Land and Buildings			Equipment	Total
	Freehold	Leasehold	Finance Lease		
	£000	£000	£000	£000	£000
Cost at 1 August 2004	174,547	19,264	5,757	27,014	226,582
Additions in the year at cost	10,890	233	-	2,143	13,266
Less: Disposals during the year	-	-	-	3,418	3,418
Cost at 31 July 2005	185,437	19,497	5,757	25,739	236,430
Accumulated Depreciation					
At 1 August 2004	42,038	6,164	1,377	20,402	69,981
Charge for the year	3,679	369	202	3,873	8,123
Less: Eliminated on disposals	-	-	-	3,418	3,418
Depreciation at 31 July 2005	45,717	6,533	1,579	20,857	74,686
Net Book Value					
31 July 2005	139,720	12,964	4,178	4,882	161,744
1 August 2004	132,509	13,100	4,380	6,612	156,601

13 Capital commitments

	2005 £million	2004 £million
Authorised not yet contracted	92	79
Authorised and contracted	42	6
	134	85

Notes to the Accounts - *continued*

BALANCE SHEET - continued

14 Fixed asset investments

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
Market value of fixed asset investments	9,524	7,214	9,524	7,214
Properties	3,127	3,119	3,127	3,119
<i>University companies at cost</i>				
University of Liverpool Energy Company Ltd (ULEC)	-	-	1	1
University of Liverpool Construction Company Ltd (ULCCo)	-	-	4,000	4,000
University of Liverpool Commercial Services Ltd (ULCS)	-	-	550	550
	<u>12,651</u>	<u>10,333</u>	<u>17,202</u>	<u>14,884</u>

The University owns 100% of the issued ordinary capital of ULEC, ULCCo and ULCS. The University's subsidiary companies are all registered in England and Wales. The University is also the parent organization of ULIVE Enterprises Ltd and Liverpool University Press. Of these companies, only ULEC and ULCS have been consolidated. The other companies are either non-trading or immaterial. The principal purpose of these companies is to support the activities of the University.

The University has been allocated, at no cost, a proportion of shares in the following companies, none of which are considered to be material and are therefore not consolidated in these financial statements.

	University Equity (%)		University Equity (%)
Pepsyn	11.0	PalindromeX	15.0
TheRyte	2.0	Muridica	24.9
Hall Effect Technologies	2.0	QTechnologies	24.9
Stylacats	5.0	Connect Internet Solutions	50.0
InSecta	20.0	Neocare	24.9
Coleman	24.9	Astertherix	24.9
Liverpool Science Park	40.00		

15 Endowment assets

	Consolidated		University	
	2005 £000	2004 £000	2005 £000	2004 £000
As at 1 August	89,337	85,161	89,337	82,366
Purchases of investments	20,966	12,468	20,966	15,263
Disposals of investments	(13,126)	(11,104)	(13,126)	(11,104)
Appreciation on revaluation	13,100	2,812	13,100	2,812
Decrease in cash balances	(2,572)	-	(2,572)	-
	<u>107,705</u>	<u>89,337</u>	<u>107,705</u>	<u>89,337</u>
As at 31 July	107,705	89,337	107,705	89,337

Notes to the Accounts - *continued*

BALANCE SHEET - *continued*

16 Endowments

	Specific £000	General £000	Total £000
CAPITAL BALANCES			
At 1 August 2004	58,628	26,204	84,832
Adjustment to opening balances	(10)	-	(10)
Transfer from income to capital	598	637	1,235
New endowments received in the year	2,690	-	2,690
Capital balances utilised	-	-	-
Realised profits in year	1,450	335	1,785
Appreciation of endowment asset investments	9,217	3,883	13,100
	<u>72,573</u>	<u>31,059</u>	<u>103,632</u>
INCOME BALANCES			
At 1 August 2004	4,505	-	4,505
Opening Balance Adjustment	32	-	32
Transfer to capital from income	(1,235)	-	(1,235)
Income for year	1,511	1,783	3,294
Payments in the year	(740)	(1,783)	(2,523)
	<u>4,073</u>	<u>-</u>	<u>4,073</u>
Total	<u>76,646</u>	<u>31,059</u>	<u>107,705</u>

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
17 Debtors				
Amounts falling due within one year:				
Debtors - trade	25,778	24,252	25,778	24,203
- intergroup	-	-	2,293	1,402
Prepayments and accrued income	11,661	11,618	11,655	11,618
	<u>37,439</u>	<u>35,870</u>	<u>39,726</u>	<u>37,223</u>

18 Creditors: Amounts falling due within one year

Bank Overdraft	838	1,302	838	1,302
Obligations under finance leases	217	202	217	202
Creditors - trade	28,222	27,931	27,739	26,125
- intergroup	-	-	5,847	6,300
Social security and other taxation	3,328	3,024	3,328	3,024
Accrued charges	12,925	10,603	12,925	10,272
	<u>45,530</u>	<u>43,062</u>	<u>50,894</u>	<u>47,225</u>

Notes to the Accounts - *continued*

BALANCE SHEET - continued

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
19 Creditors: Amounts falling due after one year				
Obligations under finance leases				
due 2-5 years	1,046	971	1,046	971
due over 5 years	3,209	3,501	3,209	3,501
Other creditors	119	119	-	-
	<u>4,374</u>	<u>4,591</u>	<u>4,255</u>	<u>4,472</u>

20 Deferred capital grants - university and consolidated

	Funding Council	Other Grants & Benefactions	Total
	£000	£000	£000
At 1 August 2004			
Buildings	73,549	19,706	93,255
Equipment	2,473	2,869	5,342
Total	<u>76,022</u>	<u>22,575</u>	<u>98,597</u>
Cash received/receivable			
Buildings	4,224	(53)	4,171
Equipment	127	1,248	1,375
Total	<u>4,351</u>	<u>1,195</u>	<u>5,546</u>
Released to income and expenditure			
Buildings	1,982	494	2,476
Equipment	975	2,129	3,104
Total	<u>2,957</u>	<u>2,623</u>	<u>5,580</u>
At 31 July 2005			
Buildings	75,791	19,159	94,950
Equipment	1,625	1,988	3,613
Total	<u>77,416</u>	<u>21,147</u>	<u>98,563</u>

Notes to the Accounts - *continued*

BALANCE SHEET - continued

	2005	2004
	£000	£000
21 Revaluation reserve		
Consolidated and University Balance 1 August 2004	2,630	2,345
Unrealised profits on investments	-	285
Balance 31 July 2005	2,630	2,630

22 Income and expenditure reserves

	Consolidated		University	
	2005	2004	2005	2004
	£000	£000	£000	£000
Balance 1 August 2004	111,667	100,911	112,087	101,500
Surplus on income and expenditure account	12,319	10,631	12,485	10,462
Other transfers	-	125	-	125
Balance 31 July 2005	123,986	111,667	124,572	112,087
Represented by:				
Allocated to University Departments	40,756	33,723	40,756	33,723
University Development Fund	19,916	19,334	19,916	19,334
For capital purposes	63,900	59,030	63,900	59,030
Subsidiaries	(586)	(420)	-	-
	123,986	111,667	124,572	112,087

23 Access Funds

	Year ended 31 July 2005	Year ended 31 July 2004
	£000	£000
Funding Council grants	831	981
Interest earned	3	6
	834	987
Disbursed to students	(915)	(986)
Audit fees	(1)	(1)
Balance overspent at 31 July	(82)	-

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

Notes to the Accounts - *continued*

CASH FLOW

	Year ended 31 July 2005 £000	Year ended 31 July 2004 £000
24 Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities		
Surplus on continuing operations after depreciation of assets	13,122	10,629
Depreciation (notes 1 & 11)	8,248	9,670
Deferred capital grants released to income (notes 2 & 20)	(5,580)	(6,722)
Finance lease interest charge	352	371
Gain on sale of fixed asset investment	(2,284)	-
(Increase)/decrease in stocks	(86)	263
(Increase) in debtors	(1,569)	(2,132)
Increase in creditors	2,917	6,545
Investment income	(6,917)	(5,776)
Non-cash movement from reserves	-	125
Net cash inflow from operating activities	8,203	12,973
25 Returns on Investments and Servicing of Finance		
Income from endowments	3,294	3,168
Other interest received	3,401	2,200
Other investment income	222	408
Interest element of finance lease rental payment	(352)	(371)
Net cash inflow from returns on investment and servicing of Finance	6,565	5,405
26 Capital Expenditure and Financial Investment		
Purchase of tangible fixed assets	(13,316)	(20,721)
Payments to acquire endowment assets	(20,966)	(11,721)
Receipt from sale of fixed asset investments	9,200	-
Receipt from sale of endowment assets	14,910	10,014
Deferred capital grants received	5,501	10,464
Endowments received	2,690	3,235
Net cash (outflow) from capital expenditure and Financial investment	(1,981)	(8,729)

Notes to the Accounts – *continued*

CASH FLOW - continued

	Year ended 31 July 2005 £000	Year ended 31 July 2004 £000		
27 Management of Liquid Resources				
Purchase of Investments	36	647		
Placing of deposits	10,700	(3,800)		
Movement in endowment assets	2,573	74		
Net cash inflow/(outflow) from management of liquid resources	13,309	(3,079)		
28 Financing				
Debt due beyond a year:				
Capital element of finance lease rental payments	(195)	(177)		
Net cash (outflow) from financing	(195)	(177)		
29 Analysis of Changes in Net Funds				
	At 1 August 2004 £000	Cashflows £000	Other changes £000	At 31 July 2005 £000
Cash in hand, and at bank	45,554	16,193	-	61,747
Endowment assets investments	8,619	(2,573)	-	6,046
Overdrafts	(1,301)	463	-	(838)
Fixed Asset Investments	-	9,200	-	9,200
	52,872	23,283	-	76,155
Finance leases				
Debt due within 1 year	(202)	(15)	-	(217)
Debt due after 1 year	(4,593)	219	-	(4,374)
Current asset investments	10,700	(10,700)	-	-
	<u>58,777</u>	<u>12,787</u>	<u>-</u>	<u>71,564</u>

Notes to the Accounts - *continued*

30 Retirement benefits under SSAP24 and FRS17

The University continues to comply with SSAP24 until FRS17 is adopted in full. The basis of the contributions to the schemes below are the long-term contribution rates. The total pension cost for the University was:

	Year ended 31 July 2005 £000	Year ended 31 July 2004 £000
Contributions to Universities Superannuation Scheme	10,546	9,768
Contributions to University of Liverpool Pension Fund	3,845	3,095
Contributions to other schemes	842	886
Backdated pension contribution	345	883
	-----	-----
Total Pension Cost (note 9)	15,578	14,632
	-----	-----

Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. It is not possible to identify each institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if it were a defined contribution scheme. The cost recognised within the surplus for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

The latest actuarial valuation of the scheme was at 31 March 2002. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pension. In relation to the past service liabilities the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 5.0% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.0% per annum, including an additional investment return assumption of 1% per annum, salary increases would be 3.7% per annum and pensions would increase by 2.7% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the market value of the assets of the scheme was £19,938 million and the value of the past service liabilities was £19,776 million leaving a surplus of assets of £162 million. The assets therefore were sufficient to cover 101% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The University contribution rate required for future service benefits alone at the date of the valuation was 14.25% of salaries but it was agreed that the institution contribution rate will be maintained at 14% of salaries. To fund this reduction of 0.25% for the period of 12 years from the date of the valuation (the average outstanding working lifetime of the current members of the scheme) required the use of £82.5 million of the surplus. This left a past service surplus of £79.5 million (including the Supplementary Section) to be carried forward. The next formal actuarial valuation date is due as at 31 March 2005 when the above rates will be reviewed.

Surpluses or deficits which arise at future valuations may impact on universities' future contribution commitment.

The total pension contributions to USS for the University was £10,546k (2004 : £9,768k). The contribution rate payable by the University was 14% of pensionable salaries.

Notes to the Accounts - *continued*

University of Liverpool Pension Fund (ULPF)

The ULPF is a defined benefit scheme operated in the UK. The pension cost for the year for ULPF has been assessed by reference to the existing accounting standard SSAP24. The principal assumptions made were that earnings would increase by 2% per annum over and above price inflation, and investment returns would be 2.6% per annum over and above price inflation. The rate of contributions paid takes into account the results of the actuarial valuation carried out as at 31 July 2003, and the pension cost reflects the contributions actually paid. The funding level at that date was 107% on the continuing valuation basis. For the purposes of FRS17, an updated valuation to 31 July 2005 has been performed by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	At year-end 31 July 2005 %	At year-end 31 July 2004 %	At year-end 31 July 2003 %
Rate of increase in salaries	4.75	5.00	4.50
Rate of increase in pensions in payment	2.75	3.00	2.50
Revaluation rate for deferred pensioners	2.75	3.00	2.50
Discount rate	5.00	5.75	5.25
Inflation assumption	2.75	3.00	2.50

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

	Long-term rate of return expected at 31 July 2005 %	Fair Value at 31 July 2005 £000	Long-term rate of return expected at 31 July 2004 %	Fair Value at 31 July 2004 £000	Long-term rate of return expected at 31 July 2003 %	Fair Value at 31 July 2003 £000
Equities	8.00	132,760	8.00	115,807	8.00	107,435
Bonds	5.00	28,299	5.25	23,409	4.75	25,464
Cash	4.75	563	4.75	8,759	4.00	5,014
Property	8.00	16,585	8.00	-	8.00	-
Total market value of assets		178,207		147,975		137,913

Illustrative balance sheet figures:

	At year-end 31 July 2005 £000	At year-end 31 July 2004 £000	At year-end 31 July 2003 £000
Total market value of assets	178,207	147,975	137,913
Actuarial present value of scheme liabilities	(189,800)	(164,333)	(152,257)
(Deficit)/surplus	(11,593)	(16,358)	(14,344)

Notes to the Accounts - *continued*

If the amounts shown on page 32 had been recognised in the financial statements, the University's net assets and income and expenditure reserves at 31 July 2005 would be as follows:

	31 July 2005	31 July 2004
	£000	£000
Net assets excluding pension liability	332,884	302,230
Pension (liability)	(11,593)	(16,358)
	<hr/>	<hr/>
Net assets including pension liability	<u>321,291</u>	<u>285,872</u>
Income and expenditure reserves excluding pension (liability)	123,986	111,667
Pension (liability)	(11,593)	(16,358)
	<hr/>	<hr/>
Income and expenditure reserve including pension (liability)	<u>112,393</u>	<u>95,309</u>

Illustrative charge to the income and expenditure account over the financial year:

	Year to	
	31 July 2005	
	£000	£000
<i>Operating Profit</i>		
Current service cost		5,853
Past service cost		736
Previous unrecognised surplus deducted from past service cost		-
Gains and losses on settlements and curtailments		-
Previous unrecognised surplus deducted from settlement or curtailment losses		-
		<hr/>
Total operating charge		6,589
<i>Other finance income</i>		
Expected return on pension scheme assets	10,848	
Interest on pension liabilities	(9,494)	
	<hr/>	
Net return		1,354
		<hr/>
Total		<u>5,235</u>

Analysis of amounts that would be recognised in the statement of total recognised gains and losses (STRGL):

	Year to	Year to
	31 July 2005	31 July 2004
	£000	£000
Actuarial return less expected return on assets	20,947	69
Experience gains and losses on liabilities	2,754	10,038
Changes in assumptions underlying the present value	(17,155)	(10,897)
	<hr/>	<hr/>
Actuarial gain/(loss)	<u>6,546</u>	<u>(790)</u>

Notes to the Accounts - *continued*

Movement in illustrative balance sheet figures during the year:

	2004-2005 £000	2003-2004 £000
(Deficit)/Surplus in scheme at beginning of year	(16,358)	(14,344)
Movement in year:		
Current service cost	(5,853)	(5,169)
Contributions	3,454	2,963
Past service costs	(736)	(944)
Net interest/return on assets	1,354	1,926
Actuarial gain/(loss)	6,546	(790)
	<hr/>	<hr/>
(Deficit) in scheme at end of year	(11,593)	(16,358)
	<hr/>	<hr/>

The total pension contribution to ULPF was £4,190k (2004: £2,963k). The contribution rate payable by the University was 12.4% of pensionable salaries.

Experience gains and losses:

	Year to 31 July 2005 £000	Year to 31 July 2004 £000	Year to 31 July 2003 £000
Difference between expected and actual return on scheme assets:			
amount (£000)	20,947	69	(2,425)
percentage of scheme assets	12%	0%	-2%
Experience gains and losses on scheme liabilities:			
amount (£000)	2,754	10,038	1,600
percentage of scheme liabilities	1%	6%	1%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:			
amount (£000)	(17,155)	(10,897)	(26,075)
- percentage of scheme liabilities	-9%	- 7%	-17%
Total amount which would be recognised in statement of total recognised gains and losses:			
amount (£000)	6,546	(790)	(26,900)
percentage of scheme liabilities	3%	0%	-18%