



**THE UNIVERSITY OF HULL**

The University of Hull  
Cottingham Road  
Hull  
HU6 7RX  
[www.hull.ac.uk](http://www.hull.ac.uk)

# THE UNIVERSITY OF HULL



STATEMENT OF ACCOUNTS  
2005/06



*John Parkes, Treasurer*

# Financial Report

## Report of the Treasurer

Any analysis of the University's financial performance in 2005–6 has to begin with a consideration of the new accounting standard for pensions, FRS17. For the last two years its potentially dramatic effect on the accounts has been shown by way of footnotes. For the first time it is now reflected in the accounts themselves, with a somewhat paradoxical result.

On the one hand, the Balance Sheet now shows that the actuarial deficit on pension schemes of £15 million turns the accumulated surplus on the General Reserve into a deficit. To eliminate the actuarial shortfall, the University has been paying sharply higher employer contributions into the Fund. However, FRS 17 requires the Income and Expenditure Account to bear only the cost of providing benefits accruing that year. The perverse result is that (as compared with the Budget and Management Accounts) expenditure is reduced by about £1 million, resulting in a surplus of just over that amount.

FRS17 aside, the operating result for the year was virtually breakeven, with a surplus of barely 0.1% of turnover. Two years ago the University achieved its strategic financial goal of a surplus equivalent to 3%, which has otherwise proved elusive. 2005–6 followed the previous year's experience, with shortfalls on income both from overseas students and from research grants and contracts. However costs were well controlled and the overall result can be seen as creditable.

Capital expenditure was again high at over £15 million, equivalent to over 13% of turnover. It was nevertheless possible to finance this considerable investment in the future without any increase in our external debt. This was thanks to grants received from the Higher Education Funding Council for England (HEFCE), to internal cash generation and the net movement of current assets and liabilities.

As to the future, the progressive introduction of variable student fees from the current academic year should make for an easier matching of needs and resources, albeit that additional income is already (and rightly) partly hypothecated to student bursaries. Planned capital investment continues at a high level, for example on the new Logistics Institute and upgrading student residences. Fortunately the University retains adequate borrowing capacity under a flexible credit facility.

The Finance Director's more detailed commentary follows and I am grateful to him and, indeed, to the Vice-Chancellor and all his senior staff for their successful stewardship of the University's finances.

### **Income**

The University increased its income by £2.6m or 2.4% to £113.8m. The main changes were:

- HEFCE and Training and Development Agency grants, supporting increased activity such as the Hull York Medical School – increase of £3.2m.

- Deferred Capital Grants to cover increased depreciation of assets acquired through capital grants – increase of £0.9m.
- International student tuition fee income – decrease £0.9m.
- Research grants and contracts income – decrease £0.9m.

### Expenditure

The University's operating costs increased by £3.2m or 2.9% to £112.6m. Within this staff costs rose by 6.2% to £71.1m, representing 62.5% of total income. Much of the increased staff costs arise through the annual pay award, the first impact of the pay review and role analysis, and the costs of an early retirement / voluntary redundancy scheme.

Other operating expenses have actually decreased by £2.1m or 5.5% to £35.7m. This reflects increasingly tight cost control throughout the University – the need to contain costs within income led to budget reductions in planned maintenance. Further, in line with reduced activity on research grants and contracts, related costs have fallen.

Depreciation increased by £1.4m or 35% to £5.3m, reflecting recent increases in capital expenditure and also a change in the asset life (to 25 years from 50 years) of refurbishment projects.

Interest payable decreased by £0.3m or 33% to £0.6m as the University refinanced its borrowing at more advantageous rates, coupled with reduced FRS17 pension finance charge.

### Results for the year

The University's consolidated income, expenditure and result for the year are summarised below.

	2005–6	2004–5
	£m	£m
Income	113.8	111.1
Expenditure	112.7	109.4
Surplus for the year	1.1	1.7

### Estates and other projects

The programme of long term maintenance continues but was again restricted by the cost pressures that the University experiences. The University campuses continue to provide a good and attractive environment for staff and students.

£15.4m has been invested in new assets, the most significant being the continued upgrading and conversion of buildings on the west of the campus for the Business School and the Faculty of Health and Social Care. Work has now started there on the University of Hull Logistics Institute. The University has started a programme of upgrading its student residential accommodation – the first phase of which was £3.8m.

### Other balance sheet movements

The level of debtors in the consolidated accounts has decreased from £10.4m to £8.4m. The major contribution to this is improved debt collection.

Short term creditors have risen from £37.2m to £40.6m. The increase is mainly due to the technical inclusion of July salaries at the balance sheet date.

### Cash flow

Overall borrowing remains at £9.0m, although it is now split between £6.5m short term facility and £2.5m long term loan. Short term investments and cash, taken together, stand at £12.7m, including £6.2m MRI reserve funds (£4.6m at July 2005, excluding MRI reserve funds), indicating a strong cash position at the year end, despite the high levels of investment in the University's building and equipment. A summary cash flow statement is as follows:

	2005–6 £m	2004–5 £m
Opening balance	4.6	6.4
Surplus	1.1	1.7
FRS17 Pension Adjustments (net)	(1.0)	(1.0)
Depreciation less Deferred Capital Grants	2.1	1.6
Capital Expenditure less Capital Grants	(8.6)	(7.7)
Decrease / (increase) in debtors	2.0	(1.3)
Increase in creditors	5.9	3.3
Increase / (decrease) in provisions	0.4	(1.1)
Increase in borrowing	0.0	2.7
Inclusion of MRI reserve funds	6.2	–
Closing Balance	12.7	4.6

*John Parkes, Treasurer*

*Keith Stephenson, Finance Director*

# Corporate Governance Statement

## Summary of the University's Structure of Corporate Governance

The following statement is provided to enable readers of the Annual Report and Statement of Accounts of the University to obtain a better understanding of the governance and legal structure of the University.

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

The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in 1954. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes which are approved by the Privy Council.

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

- **The Council** is the executive governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution.

It has a majority of members from outside the University (described as lay members), from whom its Chair must be drawn. Also included in its members are representatives of the staff of the University and the student body. The lay members receive no fees or payment for the work which they do for the University. The Chair of Council is Mr J Standen.

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

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

The principal academic and administrative officer of the University is the Vice-Chancellor; Professor D J Drewry, who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University.

Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the

designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

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

Although the Council meets at least four times each academic year, much of its detailed work is initially handled by committees, in particular the Finance Committee (chaired by the Treasurer, Mr J A Parkes), the Human Resources Committee (chaired by Mrs S A Smith), the Estates Committee (chaired by Mr A C Wardle), the Nominations Committee (chaired by Mr J Standen), the Remuneration Committee (chaired by Mr J Standen), the Ethics Committee (chaired by Professor G Brown) and the Audit Committee (chaired by Mrs N J Duncumb). The decisions of these committees are formally reported to the Council.

These committees are formally constituted as committees of the Council with written terms of reference and specified membership, including a proportion of lay members (from whom the Chair is selected).

The University maintains a Register of Interests of Members of the Council and Senior Officers which may be consulted by arrangement with the Quality Director, University Registrar and Secretary.

The Council has adopted a Risk Management Policy and agreed a Risk Register. Risk owners report to the Council and the Audit Committee monitors the risk management process. The Council's practice complies with the guidance from the Higher Education Funding Council for England.

The Quality Director, University Registrar and Secretary acts as Secretary of the Council. Any enquiries about the constitution and governance of the University should be addressed to the Quality Director, University Registrar and Secretary.

## Responsibilities of the Council of the University of Hull

In accordance with the University's Charter and Statutes, the Council is responsible for the strategic direction, administration and management of the affairs of the University. It has published a Statement of Primary Responsibilities which is reproduced at the end of this statement. One of its responsibilities is to present audited financial statements for each financial year.

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 University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards.

In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council for the University, the Council, 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 of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Council has ensured 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; and
- financial statements are prepared on a going-concern basis unless it is inappropriate to presume that the University will continue in operation.

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 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.

## Statement of Internal Control

As the governing body of the University of Hull, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in the University's Charter and Statutes and the Financial Memorandum with the HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2006 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

As the governing body, the Council has responsibility for overseeing and reviewing the effectiveness of the system of internal control. The following processes exist:

- The plans and strategic direction of the institution are reviewed at regular intervals.
- Council receives regular reports from the Audit Committee concerning internal control, and reviews annually the results of risk identification, evaluation and management. Council also approves annually the institutional risk register.

- The Senior Management Team (SMT) Monitoring Group, chaired by the Vice-Chancellor, takes responsibility for risk identification, evaluation and management.
- An institution-wide risk register is maintained by the Senior Management Team, revised 'in year' as the result of emergent risks. Risks are monitored monthly by the SMT and reviewed with departments twice per year. The register is reviewed annually on a more formal basis.
- Risk assessment is an integral part of the planning and budgeting processes. Each academic and service area Head is required to compile a risk register, to manage and review regularly the identified risks. Deans and Heads of Departments are briefed annually on risk processes and controls are reviewed twice per year.
- A risk prioritisation methodology is utilised based on the probability and likely impact of the risk materialising.

The Council's review of the effectiveness of the system of internal control is informed by the University's internal auditors who operate to standards defined in the HEFCE Audit Code of Practice. The internal auditors submit regular reports, via the Audit Committee, which include an independent opinion on the adequacy and effectiveness of the institution's system of internal control, with recommendations for improvement.

The Council's review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the institution, who have responsibility for the maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports. The University risk management processes are also subject to periodic review by the HEFCE Audit Service and have been adjudged to provide a high level of assurance.

## Council – Statement of Primary Responsibilities

The principal responsibilities of the Council of the University of Hull are as follows:

1. To approve the mission and strategic vision of the University, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.
2. To delegate authority to the Vice-Chancellor, as chief executive, for the academic, corporate, financial, estate and personnel management of the University. And to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the Vice-Chancellor.
3. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
4. To ensure processes are in place to monitor and evaluate the performance and effectiveness of the University against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
5. To establish processes to monitor and evaluate the performance and effectiveness of the Council itself.
6. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
7. To safeguard the good name and values of the University.
8. To appoint the Vice-Chancellor as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
9. To appoint a secretary to the Council and to ensure that, if the person appointed has managerial responsibilities in the University, there is an appropriate separation in the lines of accountability.
10. To be the employing authority for all staff in the University and to be responsible for establishing a human resources strategy.
11. To be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate.

12. To be the University's legal authority and, as such, to ensure that systems are in place for meeting all the University's legal obligations, including those arising from contracts and other legal commitments made in the University's name.
13. To ensure that appropriate provision is in place for the general welfare of students, in consultation with the Senate.
14. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the University.
15. To ensure that the University's constitution is followed at all times and that appropriate advice is available to enable this to happen.

# Independent Auditors' Report to the Council of the University of Hull

We have audited the Group and University financial statements (the 'financial statements') of the University of Hull for the year ended 31 July 2006 which comprise the consolidated income and expenditure, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's 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, for our audit work, for this report, or for the opinions we have formed.

## Respective Responsibilities of the University's Council and Auditors

The University's Council responsibilities for preparing the Treasurer's Report and the group financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page 5.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England, the Training and Development Agency for Schools and the Learning and Skills Council. We also report to you whether in our opinion the Treasurer's Report is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the Treasurer's Report and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements.

## Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and the Audit Code of Practice issued by the Higher Education Funding Council for England. 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 University's Council in the preparation of the financial statements and of whether the accounting policies are appropriate to the Group and University's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

## Opinion

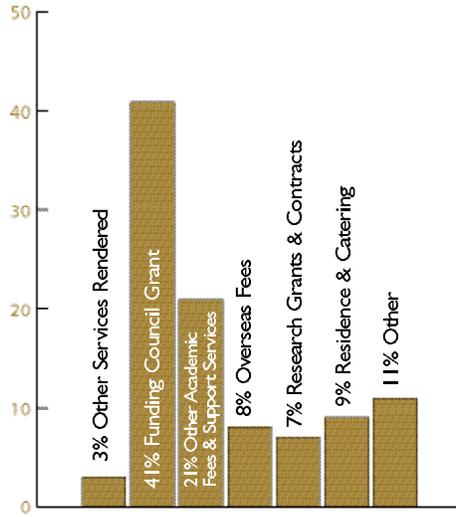
In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University and the group as at 31 July 2006 and of the Group's surplus of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2006 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2006 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England, the funding agreement with the Training and Development Agency for Schools and the funding agreement with the Learning and Skills Council.

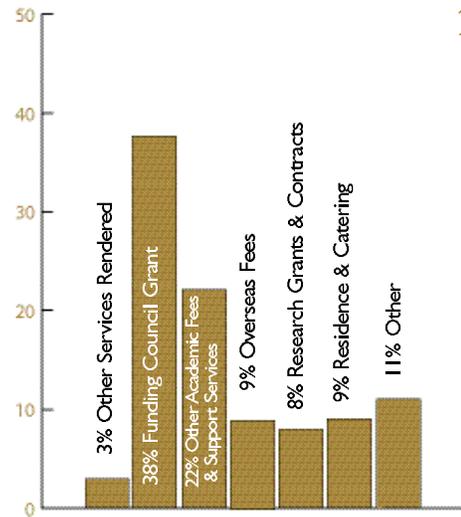
KPMG LLP  
*Chartered Accountants*  
*Registered Auditor*

# Illustration of income and expenditure

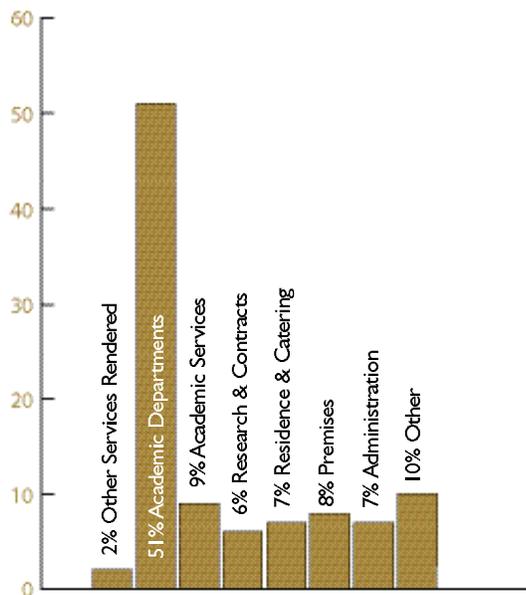
Income  
2005-6



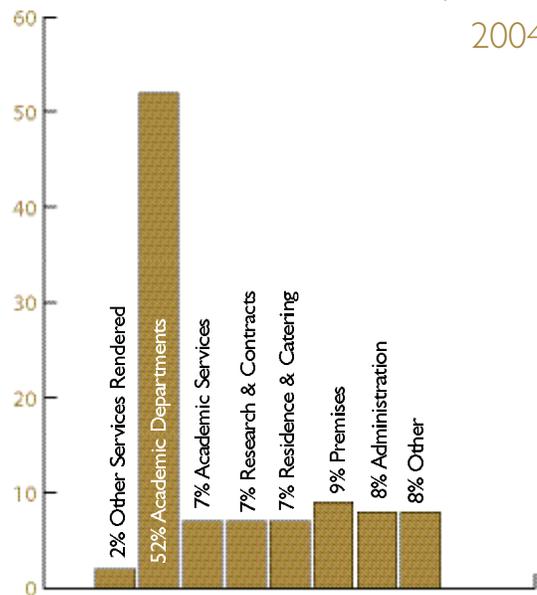
Income  
2004-5



Expenditure  
2005-6



Expenditure  
2004-5



# 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, and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (SORP) and applicable Accounting Standards.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except for the recognition and measurement of FRS 17 'Retirement Benefits' which has been adopted. Previously the transitional disclosures of that standard have been followed.

## 2. Basis of consolidation

The University has set up a number of companies for commercial purposes. The details are included in Note 11 to the financial statements.

A small number of companies in which the University has a minority shareholding are accounted for as fixed asset investments as disclosed in note 11.

The consolidated financial statements include the University of Hull and its subsidiary undertakings referred to as 'The Group'. The results of subsidiaries acquired during the period are included in the consolidated profit and loss account from the date of their acquisition. Intragroup sales and profits are eliminated fully on consolidation.

The financial statements do not include those of the University of Hull Students' Union as the University does not have a dominant influence over its policy decision.

## 3. Provisions for liabilities and charges

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event, it is probable that a transfer of economic benefit will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

## 4. Recognition of income

Income from Specific Endowments and Donations, Research Grants, Contracts and Other Services Rendered is included to the extent to the extent of the expenditure incurred during the year; together with any related contributions towards overhead costs. All income from short-term deposits and General Endowment Asset Investments is credited to the Income and Expenditure Account on a receivable basis.

Recurrent grants from the Funding Councils are recognised in the period in which they are receivable.

## 5. Pensions

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme for academic and academic-related staff and the University of Hull Pension and Assurance Scheme for other staff. The

schemes are defined benefit schemes which are externally funded and contracted out of the State Earnings-Related Pension Scheme. Pension costs are assessed in accordance with the advice of the actuaries to each scheme, based on the latest actuarial valuations of the schemes.. A small number of staff remain in other pension schemes.

The University has fully adopted accounting standard FRS 17 'Retirement Benefits' during the year, principally for its own University of Hull Pension and Assurance Scheme. The impact of this standard has been reflected throughout the financial statements. Prior year comparatives have been restated where appropriate.

The difference between the fair value of the assets held in the University's defined benefit pension scheme and the scheme's liabilities measured on an actuarial basis using the projected unit method are recognised in the University's balance sheet as a pension scheme asset or liability as appropriate.

Changes in the defined benefit pension scheme asset or liability arising from factors other than cash contribution by the University are charged to the income & expenditure account or the statement of total recognised gains and losses in accordance with FRS 17 'Retirement Benefits'.

For the Universities Superannuation Scheme pension costs are brought to account on the basis of charging the costs of providing pensions over the period during which the University benefits from the employees' services.

## 6. Foreign currencies

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 and the resulting exchange differences are included in the determination of the surplus or deficit for the year.

## 7. Leases

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the leases.

Finance 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 finance leases. 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 income in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the life of the lease.

## 8. Land and buildings

Land and Buildings are stated at cost or valuation. Land is not depreciated as it is considered to have an indefinite useful life. New buildings are depreciated over their expected useful lives of 50 years or the length of lease for leasehold properties. From financial year 2005–6 all capital expenditure (recent and historic) classed as building refurbishment is depreciated over 25 years, reflecting a revised expected useful life of the refurbishment. From financial year 2003–4 no depreciation is charged in the year of acquisition on either category.

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

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

## 9. Equipment

Equipment costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised.

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

General equipment	5 years
Motor Vehicles	4 years
Equipment acquired for specific research projects	project life by financial year

From financial year 2003–4 no depreciation is charged in the year of acquisition.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected useful life of the equipment (the period of the grant by financial year in respect of specific research projects).

## 10. Maintenance of premises

The cost of routine maintenance is charged to the Income and Expenditure account in the period that it is incurred.

## 11. Endowment Asset Investments

Endowment asset investments are included in the Balance Sheet at market value. Current Asset Investments are included at the lower of cost or market value.

## 12. Stocks

Stocks are valued at the lower of cost or net realisable value. Stocks held in teaching and service departments are excluded.

## 13. Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. 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 but exclude any such assets held as Endowment Asset Investments. Current Asset Investments represent liquid resources held wholly as term deposits.

## 14. Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

# Consolidated income and expenditure account

## for the year ended 31 July 2006

	Note	2006 £000	2005 £000 restated
<b>INCOME</b>			
Funding Council Grants	1	46,150	42,085
Tuition Fees and Education Contracts	2	33,512	34,473
Research Grants and Contracts	3	8,235	9,120
Other Income	4	25,093	24,640
Endowment and Investment Income	5	764	813
		<b>113,754</b>	<b>111,131</b>
<b>EXPENDITURE</b>			
Staff Costs	6	71,060	66,895
Other Operating Expenses	7	35,664	37,750
Depreciation	10	5,327	3,949
Interest Payable	8	593	887
	9	<b>112,644</b>	<b>109,481</b>
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and before tax		1,110	1,650
Surplus on Disposal of Tangible Fixed Assets		0	0
Taxation		0	0
Transfer (to)/from accumulated income within specific endowments		(28)	20
Surplus on continuing operations after depreciation of tangible fixed assets at valuation and disposal of assets and tax and transfers in respect of specific endowments	20	<b>1,082</b>	<b>1,670</b>

The income and expenditure account is in respect of continuing activities

The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17. See note on prior year adjustment.

# Balance sheets as at 31 July 2006

	Note	Consolidated		University	
		2006	2005	2006	2005
		£000	£000 restated	£000	£000 restated
<b>FIXED ASSETS</b>					
Tangible Assets	10	80,983	70,876	80,983	70,876
Investments	11	3	3	1,685	1,685
		80,986	70,879	82,668	72,561
<b>ENDOWMENT ASSETS</b>					
	12	10,758	16,935	10,758	16,935
<b>CURRENT ASSETS</b>					
Stocks		71	68	71	68
Debtors	13	8,435	10,432	10,506	12,779
Investments		11,492	3,284	11,492	3,284
Cash at Bank and in Hand		1,177	1,274	303	503
		21,175	15,058	22,372	16,634
<b>CREDITORS: AMOUNTS FALLING</b>					
DUE WITHIN ONE YEAR	14	(40,572)	(37,204)	(40,640)	(37,272)
<b>NET CURRENT LIABILITIES</b>					
		(19,397)	(22,146)	(18,268)	(20,638)
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>					
		72,347	65,668	75,158	68,858
<b>CREDITORS: AMOUNTS FALLING</b>					
DUE AFTER MORE THAN ONE YEAR	15	(2,500)	(0)	(4,494)	(2,169)
PROVISIONS FOR LIABILITIES AND CHARGES	16	(953)	(556)	(953)	(556)
<b>NET ASSETS EXCLUDING PENSION (LIABILITY)</b>					
		68,894	65,112	69,711	66,133
PENSION (LIABILITY)	29	(15,031)	(16,992)	(15,031)	(16,992)
<b>NET ASSETS INCLUDING PENSION (LIABILITY)</b>					
		53,863	48,120	54,680	49,141
<b>DEFERRED CAPITAL GRANTS</b>					
	17	39,092	35,466	39,092	35,466
<b>ENDOWMENTS</b>					
Specific	18	4,153	10,330	4,153	10,330
General	18	6,605	6,605	6,605	6,605
		10,758	16,935	10,758	16,935
<b>RESERVES</b>					
MRI Reserve	21	6,225	0	6,225	0
Revaluation Reserve	19	2,657	2,704	2,657	2,704
		8,882	2,704	8,882	2,704
General reserve excluding pension (liability)	20	10,162	10,007	10,979	11,028
Pension Reserve	29	(15,031)	(16,992)	(15,031)	(16,992)
General reserve including pension (liability)	20	(4,869)	(6,985)	(4,052)	(5,964)
<b>TOTAL</b>					
		53,863	48,120	54,680	49,141

The financial statements on pages 16 to 44 were approved by the Council on 23 November 2006, and signed on its behalf by: MR J STANDEN (Chairman of Council) • MR J.A. PARKES (Treasurer) • PROFESSOR D.J. DREWRY (Vice-Chancellor)

## Consolidated cash flow statement

for the year ended 31 July 2006

	Note	2006 £000	2005 £000 restated
CASH FLOW FROM OPERATING ACTIVITIES	23	10,216	2,758
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	24	337	450
CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	25	(2,442)	(7,672)
MANAGEMENT OF LIQUID RESOURCES	26	(8,208)	1,924
FINANCING	27	0	2,650
(DECREASE)/INCREASE IN CASH IN THE YEAR		(97)	110

## Reconciliation of net cash flow to movement in net funds/(debt)

	2006 £000	2005 £000 restated
(Decrease)/Increase in cash in the year	(97)	110
Cash inflow/(outflow) from liquid resources	8,208	(1,924)
Change in net debt resulting from cash flows	8,111	(1,814)
Repayment of Debt/(Increase in Debt)	0	(2,650)
MOVEMENT IN NET FUNDS IN THE PERIOD	8,111	(4,464)
Net (Debt)/Funds at 1 August	(4,442)	22
NET FUNDS/(DEBT) AT 31 JULY	3,669	(4,442)

## Statement of consolidated total recognised gains and losses for the year ended 31 July 2006

		2006	2005
	Note	£000	£000 restated
Surplus on continuing operations after Depreciation of Assets at Valuation and Disposal of Tangible Fixed Assets		1,082	1,670
(Depreciation)/Appreciation of Endowment Asset Investments	18	(23)	123
Endowment Income Retained/(Released) for Year	18	28	(20)
New Endowments	18	43	54
FRS17 actuarial gain/(loss) recognised in pension schemes	29	987	(964)
<b>TOTAL RECOGNISED GAINS RELATING TO THE YEAR</b>		<b>2,117</b>	<b>863</b>
Prior year adjustment		(16,992)	
<b>TOTAL RECOGNISED (LOSSES) SINCE LAST PUBLISHED FINANCIAL STATEMENTS</b>		<b>(14,875)</b>	
<b>Reconciliation</b>			
Opening Reserves and Endowments		12,654	
Total recognised gains for the year		2,117	
Closing Reserves and Endowments		14,771	

The results for the year ended 31 July 2005 have been restated to reflect the full implementation of FRS 17 (see note 20).

## Consolidated statement of Historical Cost Surpluses and Deficits for the year ended 31 July 2006

Surplus on continuing operations before taxation		1,082	1,670
Difference between an Historical Cost Depreciation Charge and the Actual Depreciation Charge for the Year Calculated on the Revalued Amount	19	47	47
<b>Historical Cost Surplus for the year before and after taxation</b>		<b>1,129</b>	<b>1,717</b>

## Notes to the accounts

	2006	2005
	£000	£000
		restated
<b>1. FUNDING COUNCIL GRANTS</b>		
Recurrent Grant	37,726	35,471
Specific Grants		
TDA	2,629	2,562
JISC	226	401
Other	3,093	2,059
Deferred Capital Grants Released in Year (note 17)	2,476	1,592
	46,150	42,085
Funding Council Grants represent grants from the Higher Education Funding Council for England and the Training and Development Agency for Schools		
<b>2. TUITION FEES AND EDUCATION CONTRACTS</b>		
Full-time Students	20,411	20,091
Full-time Students Charged Overseas Fees	9,293	10,146
Part-time Students	2,042	2,359
Research Training Support Grants	686	736
Short Course Fees	1,080	1,141
	33,512	34,473
<b>3. RESEARCH GRANTS AND CONTRACTS</b>		
Research Councils	1,839	1,883
UK Charities	1,518	1,751
UK Central Government	902	1,054
Local Authorities	312	156
Health & Hospitals	619	739
UK Industry	1,439	1,701
EU	1,122	1,159
Overseas	484	677
	8,235	9,120

## Notes to the accounts

	2006	2005
	£000	£000 restated
4. OTHER INCOME		
Residences, Catering and Conferences	9,831	9,724
Other Services Rendered	3,944	3,915
Health Authorities	4,839	4,679
Other Donations	350	128
Released from Deferred Capital Grants	563	437
Other Income	5,566	5,757
	25,093	24,640
5. ENDOWMENT AND INVESTMENT INCOME		
Transferred from Specific Endowments (note 18)	176	181
Income from General Endowment Asset Investments (note 18)	310	315
Income from Short Term Investments	278	317
	764	813
6. STAFF		
Staff Costs:		
Wages and Salaries	59,241	55,884
Social Security Costs	4,913	4,501
Other Pension Costs	6,906	6,510
	71,060	66,895
Emoluments of the Vice-Chancellor	160	153
	160	153

The emoluments of the Vice-Chancellor excludes the University's pension contributions to USS on his behalf which amounted to £17,437 (2005: £13,700). Other contributions additionally paid in the year were £11,280 (2005: £9,480).

Total emoluments therefore comprised £189,217 (2005: £176,180).

## Notes to the accounts

	2006	2005
	Number	Number
6. STAFF ( <i>continued</i> )		
Average Staff Numbers by Major Category		
Academic/Clinical	1,123	1,114
Technical	123	126
Administrative	416	428
Other	316	338
	<u>1,978</u>	<u>2,006</u>

Remuneration of Higher Paid Staff (*excluding employers pension contributions*). Staff to whom payments are made on behalf of the NHS, in respect of contracted clinical responsibilities, are shown in the column headed \*.

	No. of Staff		No. of Staff	
	*		*	
£190,000 - £199,999	0	0	1	0
£180,000 - £189,999	1	0	0	0
£170,000 - £179,999	1	0	0	0
£160,000 - £169,999	1	1	3	0
£150,000 - £159,999	1	0	0	0
£140,000 - £149,999	2	0	1	0
£130,000 - £139,999	2	2	0	1
£120,000 - £129,999	2	0	2	1
£110,000 - £119,999	4	2	5	0
£100,000 - £109,999	3	0	4	2
£90,000 - £99,999	3	1	3	0
£80,000 - £89,999	1	2	0	3
£70,000 - £79,999	0	4	1	3

One higher earning member of staff opted for redundancy during the year; £45,736 being the amount paid.

## Notes to the accounts

	2006	2005
	£000	£000 restated
7. OTHER OPERATING EXPENSES		
Residences, Catering and Conferences	4,134	3,787
Consumables and Laboratory Expenditure	11,510	12,698
Books and Periodicals	1,209	1,123
Other library and computing	2,484	1,902
General educational expenditure	1,851	2,288
Administration	2,603	3,144
Fellowships, Scholarships and Prizes	779	907
Heat, Light, Water and Power	1,496	1,223
Repairs and General Maintenance	604	669
Planned Maintenance	490	1,319
Rent, Rates and Insurance	720	627
Grants to University's Students' Union	831	726
Research Grants and Contracts	3,077	3,348
Services Rendered	1,374	1,140
Auditors' Remuneration	55	35
Auditors' Remuneration re Non-Audit Services	0	4
Bad and Doubtful Debts	881	655
Other Expenses	1,566	2,155
	<u>35,664</u>	<u>37,750</u>

## Notes to the accounts

	2006	2005
	£000	£000
8. INTEREST PAYABLE		
Bank and other Loans repayable within 1 year	358	112
Bank and other Loans wholly or partly repayable in more than 5 years	69	251
FRS17 pension finance charge	166	524
	593	887

### 9. ANALYSIS OF 2005 - 2006 EXPENDITURE BY ACTIVITY

	Staff Costs	Depreciation	Other Operating Expenditure	Interest Payable	Total
Academic Departments	44,558	1,586	11,510	0	57,654
Academic Services	5,362	549	3,693	0	9,604
Research Grants and Contracts	3,986	130	3,077	0	7,193
Residences, Catering and Conferences	2,397	430	4,134	427	7,388
Premises	3,995	1,969	3,674	0	9,638
Administration	5,465	43	2,603	0	8,111
Services Rendered	1,180	0	1,374	0	2,554
Other Expenses	4,117	620	5,599	166	10,502
	71,060	5,327	35,664	593	112,644

The depreciation charge has been funded by:

Deferred Capital Grants Released ( <i>note 17</i> )	3,169
Revaluation Reserve Released ( <i>note 19</i> )	47
General Income	2,111
	5,327

As described in the statement of accounting policies the change in estimate of depreciation for building refurbishments has had the following effect on the current year accounts:

Additional depreciation charged on assets capitalised in 2004/05 and prior years	497
Associated deferred capital grants released to income	(177)
Net additional charge in 2005/06 to income and expenditure account	320

The change in depreciation was made to reflect more accurately the consumption of economic benefits through assets capitalised.

## Notes to the accounts

	Consolidated and University			
	Land & Buildings		Equipment	Total
	Freehold	Leasehold		
	£000	£000	£000	£000
<b>10. TANGIBLE ASSETS</b>				
Cost/Valuation:				
At 1 August 2005				
Cost/Valuation	74,018	865	30,195	105,078
Additions at Cost	11,457	0	3,977	15,434
At 31 July 2006	85,475	865	34,172	120,512
Depreciation:				
At 1 August 2006				
Charge for the year	1,961	43	3,323	5,327
At 31 July 2006	14,722	430	24,377	39,529
Net Book Value				
At 31 July 2006	70,753	435	9,795	80,983
Net Book Value				
At 1 August 2005	61,257	478	9,141	70,876

Certain buildings were revalued at market value during the year ended 31 July 1998 by E.C. Harris, Chartered Surveyors and Messrs G.J.A. Grimley, Chartered Surveyors. The historical cost of these items is £4,031,000. Following the implementation of FRS15 'Tangible Fixed Assets', the tangible assets previously revalued have been retained at their book amounts as permitted by the transitional provisions of FRS15, and the valuation has not been updated.

Buildings with a net book value of £27,051,254 (2005: £24,398,224) 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 of the Higher Education Funding Council for England. Land and Buildings and Equipment at 31 July 2006 include £145,280 (2005: £393,457) of assets in the course of construction which are not depreciated until completed.

## Notes to the accounts

Consolidated		University	
2006	2005	2006	2005
£000	£000	£000	£000

### 11. FIXED ASSET INVESTMENTS

3	3	1,685	1,685
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University investments relate solely to interests in subsidiary undertakings and other companies in which the University has an interest, as follows:

Name of undertaking	Country of incorporation or registration	Description of shares held	Proportion of nominal value of issued shares held %	Nature of business
Hull Unico Limited	England & Wales	Ordinary	100	Dormant
Nursco Limited	England & Wales	Ordinary	100	Nursing training
Unico Learning Resources Limited	England & Wales	Ordinary	100	Learning resource
Guildtech Limited	England & Wales	Ordinary	100	Lease of Buildings
Wide Vista Limited	England & Wales	Ordinary	100	Lease of Buildings
Pollerwin Limited	England & Wales	Ordinary	100	Lease of Buildings
Knowledge Base (UK) Limited	England & Wales	Ordinary	25	Education & Training
IT Interface Limited	England & Wales	Ordinary	26	IT Training
Micro Chemical Systems Limited	England & Wales	Ordinary	12.5	Reactor Development
Kingston Chemicals Limited	England & Wales	Ordinary	18	Liquid Crystals
TLM Technology Limited	England & Wales	Ordinary	18	Predictive Software
CHeMTriX Limited	England & Wales	Ordinary	50	Micro reactor systems

All of the above companies operated entirely in their country of incorporation except for CHeMTriX Ltd.

Group investments relate to the holdings in Knowledge Base (UK), IT Interface, Micro Chemical Systems and Kingston Chemicals. With the exception of Kingston Chemicals Ltd, these companies are associated companies by virtue of the University's shareholding or influence. However they have not been accounted for as associated companies as they are not material to the assets or results of the University.

### Consolidated and University

2006	2005
£000	£000

### 12. ENDOWMENT ASSET INVESTMENTS

At 1 August	16,935	16,778
Additions	14,175	10,538
(Decrease)/Increase in cash balances	(6,252)	68
Disposals	(14,077)	(10,572)
(Depreciation)/Appreciation on Revaluation	(23)	123
At 31 July	10,758	16,935
Fixed Interest Stocks	3,017	2,942
Bank Balances	7,741	13,993
	10,758	16,935
Fixed Interest Stocks at Cost	2,984	2,816

## Notes to the accounts

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
<b>13. DEBTORS</b>				
Debtors	7,311	9,075	7,311	9,075
Amounts owed by subsidiary undertakings	0	0	2,071	2,347
Prepayments and Accrued Income	1,124	1,357	1,124	1,357
	<u>8,435</u>	<u>10,432</u>	<u>10,506</u>	<u>12,779</u>

Amounts fall due within one year except for £1,700,000 (2005: £1,892,000) of the element owed by subsidiaries.

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
<b>14. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR</b>				
Grants and Donations Received in Advance	12,842	13,586	12,842	13,586
Credit Facility	6,500	9,000	6,500	9,000
Creditors	8,292	6,841	8,292	6,841
Amounts owed to subsidiary undertakings	0	0	68	68
Social Security and other Taxation Payable	5,376	1,993	5,376	1,993
Accruals and Deferred Income	7,562	5,784	7,562	5,784
	<u>40,572</u>	<u>37,204</u>	<u>40,640</u>	<u>37,272</u>

The credit facility bears interest at 0.25% above LIBOR and is repayable on demand.

## Notes to the accounts

	Consolidated		University	
	2006	2005	2006	2005
	£000	£000	£000	£000
15. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR				
Unsecured Loan Repayable 2009 to 2034	2,500	0	2,500	0
Secured Bank Loan	0	0	0	0
Amounts owed to subsidiary undertakings	0	0	1,994	2,169
	<u>2,500</u>	<u>0</u>	<u>4,494</u>	<u>2,169</u>

The unsecured loan bears interest fixed at 4.94%

The Credit Facility (£6,500,000) and unsecured loan (£2,500,000) are repayable as follows:

	Consolidated	
	2006	2005
	£000	£000
Less than one year	6,500	9,000
Between one and two years	0	0
Between two and five years	250	0
In five years or more	2,250	0
	<u>9,000</u>	<u>9,000</u>

## Notes to the accounts

### Consolidated and University

	Pension £000	Restructuring £000	Total £000
16. PROVISION FOR LIABILITIES AND CHARGES			
At 1 August 2005	294	262	556
Expenditure in Year	(64)	(949)	(1,013)
Transfer from Income & Expenditure Account	420	990	1,410
At 31 July 2006	650	303	953

The restructuring provision relates to an early retirement and severance scheme announced in April 1999, which has continued during years 2000/01 and 2001/02. In addition a further scheme with revised terms was introduced in 2002/03 and continued in 2003/04, 2004/05 and 2005/06. The balance of £303,000 at 31 July 2006 relates to staff who have been accepted under the terms of these schemes and who are due to leave over the next year. The pension enhancement provision of £650,000 partly represents the present value of future pension enhancements in respect of former University College Scarborough employees who have taken early retirement; from 2005/06 it also includes an amount of £153,000 for former University of Hull employees where the pension is paid directly by the University. The Scarborough element of the provision was raised in 05/06 using updated actuarial calculations producing, along with the new Hull element, an increased charge transferred from the income and expenditure account of £420,000.

### Consolidated and University

	Funding Council £000	Other Grants & Benefactions £000	Total £000
17. DEFERRED CAPITAL GRANTS			
At 1 August 2005			
Buildings	24,398	5,033	29,431
Equipment	4,736	1,299	6,035
	29,134	6,332	35,466
Received in Year			
Buildings	3,450	760	4,210
Equipment	1,602	983	2,585
	5,052	1,743	6,795
Released in year			
Buildings	(797)	(206)	(1,003)
Equipment	(1,679)	(487)	(2,166)
	(2,476)	(693)	(3,169)
At 31 July 2006			
Buildings	27,051	5,587	32,638
Equipment	4,659	1,795	6,454
	31,710	7,382	39,092

## Notes to the accounts

### Consolidated and University

	Specific £000	General £000	Total £000
<b>18. ENDOWMENTS</b>			
At 1 August 2005	10,330	6,605	16,935
Additions	43	0	43
Transfer to Reserves (MRI)	(6,225)	0	(6,225)
(Depreciation) of Endowment Asset Investments	(23)	0	(23)
Income for Year	176	310	486
Released to Income and Expenditure Account (note 5)	(176)	(310)	(486)
Transferred from Income and Expenditure Account (see below)	28	0	28
At 31 July 2006	<u>4,153</u>	<u>6,605</u>	<u>10,758</u>
Representing:			
Fellowships and Scholarships Funds	1,845	0	1,845
Prizes Funds	338	0	338
Chairs and Lectureships Funds	1,517	0	1,517
Other Funds	453	6,605	7,058
	<u>4,153</u>	<u>6,605</u>	<u>10,758</u>

The HE Statement of Recommended Practice (SORP) now requires income from specific endowments to be credited to the income and expenditure account on a receivable basis as before by matching to spend, but achieved by a new separate transfer entry in respect of the same. This means that any income in the year from specific endowments earned in excess of that applied to the specific purpose is transferred from the income and expenditure account to accumulated endowment income in the balance sheet by transfer *after* striking an initial result for the year. Similarly any expenditure for the specific purpose applied in excess of income generated in the year is matched by transfer from accumulated endowment income again *after* striking an initial result for the year. The resultant new transfer entry is shown on the face of the income and expenditure account.

	Consolidated £000	University £000
<b>19. REVALUATION RESERVE</b>		
At 1 August 2005	2,704	2,704
Released in Year (note 9)	(47)	(47)
At 31 July 2006	<u>2,657</u>	<u>2,657</u>

## Notes to the accounts

	Consolidated	University
	£000	£000
20. GENERAL RESERVE		
At 1 August 2005	10,007	11,028
Prior year adjustment	(16,992)	(16,992)
Restated balance at beginning of year	<u>(6,985)</u>	<u>(5,964)</u>
Surplus for the year after Depreciation of Assets at Valuation	1,082	878
Release from Revaluation Reserve	47	47
FRS 17 actuarial gain on pension scheme	987	987
At 31 July 2006	<u>(4,869)</u>	<u>(4,052)</u>
The general reserve is subdivided as follows at 31 July 2006:		
Excluding pension reserve	10,162	10,979
Pension reserve	<u>(15,031)</u>	<u>(15,031)</u>
Total	<u>(4,869)</u>	<u>(4,052)</u>

### Prior year adjustment

The prior year adjustment relates to the implementation of FRS 17 'Retirement Benefits', the adoption of which resulted in the following movements:

	Consolidated
	£000
Employer contributions	3,118
Service cost	(1,569)
Pension finance charge-interest payable	<u>(524)</u>
Increase in result for prior year 2004/05	1,025
Original surplus	<u>645</u>
Revised restated surplus	<u>1,670</u>

	Consolidated and University
	£000
Analysis of prior year adjustment-reserves	
Adjustment to opening reserves 1 August 2004	(17,053)
Adjustment to income and expenditure for year ending 31 July 2005	1,025
Adjustment for actuarial loss on pension scheme	<u>(964)</u>
Prior year adjustment	<u>(16,992)</u>
Increase in total recognised gains and losses for year ended 31 July 2005	<u>61</u>

Consolidated and University

£000

21. MRI RESERVE

At 1 August 2005	0
Transferred from specific endowments	6,225
At 31 July 2006	6,225

The Magnetic Resonance Imaging (MRI) reserve has been created by transfer and reclassification of an equivalent sum formerly held within endowments in the balance sheet. Original funding to develop the current sum was provided by Yorkshire Cancer Research (YCR) who require that the funding is used to fund cancer research activity. This reclassification is required by external audit because this fund is not truly an endowment: also income generated from it has to be reported as research income (Note 3) rather than endowment income (Note 5). The equivalent endowment asset investment has been transferred to current asset investments.

Consolidated and University

2006      2005

£000      £000

22. CAPITAL COMMITMENTS

Commitments Contracted for at 31 July	2,500	4,765
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## Notes to the accounts

	2006 £000	2005 £000 restated
23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH FLOW FROM OPERATING ACTIVITIES		
Surplus	1,082	1,670
Depreciation ( <i>note 10</i> )	5,327	3,949
Deferred Capital Grants Released to Income ( <i>note 17</i> )	(3,169)	(2,320)
Investment Income ( <i>notes 5,18</i> )	(736)	(833)
Interest Payable ( <i>note 8</i> )	593	887
(Increase)/Decrease in Stocks	(3)	14
Decrease/(Increase) in Debtors	1,997	(1,321)
Increase in Creditors	5,868	3,399
Increase/(Decrease) in Provisions	397	(1,138)
Difference between pension charge and cash contributions	(1,140)	(1,549)
Net Cash Inflow from Operating Activities	<u>10,216</u>	<u>2,758</u>
24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		
Income from endowments ( <i>note 18</i> )	486	496
Income from short term investments ( <i>note 5</i> )	278	317
Interest paid ( <i>note 8</i> )	(427)	(363)
Net cash inflow from returns on investments and servicing of finance	<u>337</u>	<u>450</u>
25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT		
Tangible fixed assets and investments acquired ( <i>note 10</i> )	(15,434)	(15,109)
Endowment asset investments acquired ( <i>note 12</i> )	(7,923)	(10,606)
Sales of endowment asset investments ( <i>note 12</i> )	14,077	10,572
Deferred Capital Grants Received ( <i>note 17</i> )	6,795	7,417
Endowments Received ( <i>note 18</i> )	43	54
Net cash (outflow) from capital expenditure and financial investment	<u>(2,442)</u>	<u>(7,672)</u>

## Notes to the accounts

	2006	2005
	£000	£000
26. MANAGEMENT OF LIQUID RESOURCES		
(Increase)/Decrease in short term deposits	(8,208)	1,924
(Outflow)/Inflow from management of liquid resources	(8,208)	1,924

	2006	2005		
	£000	£000		
27. FINANCING				
	Credit Facility	Loans	Total	Total
Balance at 1 August	9,000	0	9,000	6,350
Capital Repayments	(2,500)	0	(2,500)	(6,350)
New Loan (2005: Credit Facility)	0	2,500	2,500	9,000
Balance at 31 July	6,500	2,500	9,000	9,000

	At 1 August 2005	Cash Flow	Other Changes	At 31 July 2006
	£000	£000	£000	£000

## 28. ANALYSIS OF CHANGES IN NET DEBT

Cash at Bank and in Hand	1,274	(97)	0	1,177
Liquid Resources:				
Short term deposits	3,284	8,208	0	11,492
	4,558	8,111	0	12,669
Debt Due within one year	(9,000)	2,500	0	(6,500)
Debt Due after one year	0	(2,500)	0	(2,500)
	(9,000)	0	0	(9,000)
	(4,442)	8,111	0	3,669

## 29. PENSION SCHEMES

### (a) Universities Superannuation Scheme ("USS")

The University participates in the USS, a defined benefit scheme which is externally funded and contracted-out of the State Earnings Related Pension Scheme. The assets of the scheme are held in a separate trustee administered fund.

The latest valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the valuation, are those relating to the rate of return on investments (ie. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to 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 4.5% per annum, that the rate of increase in salaries would be 3.9% per annum and that of pensions in payment, 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, that the rate of increase in salaries would be 3.9% per annum and pensions in payment, 2.9% 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 £21.7bn and the value of the past service liabilities was £28.3bn leaving a deficit of £6.6bn. The assets were therefore sufficient to cover only 77% of the benefits, which had accrued to members after allowing for expected future increases in earnings.

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of salaries but it was agreed that the institution contribution rate would be maintained at 14% of salaries.

The total pension contributions paid by the University to the USS during the year amounted to £5,004,854 (2005: £4,714,621). The contribution rate payable by the University was 14% of pensionable salaries.

### (b) University of Hull Pension and Assurance Scheme

The University operates a funded pension scheme providing benefits based on the final pensionable pay. The assets of the scheme are held separately from those of the University and are invested in a segregated fund.

The contributions to the final salary scheme are determined by a qualified actuary on the basis of triennial valuations using the projected unit method. The last actuarial valuation was carried out at 6 April 2003. The market value of the scheme assets at that date excluding additional voluntary contributions was £27.6 million. The actuarial value of these assets was £30.2 million.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investment and to the rates of increase in pay and pensions. It was assumed that the investment returns would exceed pay increases by an average 2.5% per annum. On this basis the scheme was funded at 85%.

Employer contributions to the scheme during the year totalled £2,292,169 (2005: £2,613,013). Following the actuarial valuation at 6 April 2003 and in order to comply with the Minimum Funding Requirements laid down by law, the University increased its contribution rate from 13.15% to 32.65% of pensionable salaries with effect from 1 June 2004. This was subsequently reduced to a rate of 25.40% with effect from 1 June 2005 which reflected major changes in the scheme Trust Rules and Deeds, including a change to the employee contribution rate.

### (c) Other Pension Schemes

A small number of staff remain in other pension schemes. Employer contributions to such schemes totalled £748,780 during the year (2005: £731,366).

## Notes to the accounts

### (d) Financial Reporting Standard 17

The university has fully adopted accounting standard FRS 17 'Retirement Benefits' during the year. Disclosure information is provided for relevant schemes as outlined below.

#### i) Universities Superannuation Scheme

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 brought to account as if the scheme were a defined contribution scheme. The cost is recognised within the surplus/deficit for the year in the income and expenditure account being equal to the contributions payable to the scheme for the year.

#### ii) University of Hull Pension and Assurance Scheme

A full actuarial valuation of this scheme was carried out at 6 April 2003 and financial assumptions updated to 31 July 2006 by a qualified independent actuary. The major assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	3.7%	3.2%	3.5%
Rate of increase in pensions in payment	3.2%	3.0%	3.0%
Discount rate	5.3%	5.1%	5.8%
Inflation assumption	3.2%	2.7%	3.0%

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

	Long-term expected return	2006 £000	Long-term expected return	2005 £000	Long-term expected return	2004 £000
Equities	7.60%	33,539	7.20%	30,031	7.50%	23,151
Bonds	4.80%	9,273	4.70%	7,853	5.40%	5,951
Property	7.60%	2,170	6.90%	1,749	7.50%	1,567
Cash/Other	4.75%	1,287	4.50%	1,588	4.75%	1,570
		46,269		41,221		32,239

## Notes to the accounts

The following amounts at 31 July each year were measured in accordance with the requirements of FRS 17:

	2006 £000	2005 £000	2004 £000
Total market value of assets	46,269	41,221	32,239
Present value of scheme liabilities	(59,705)	(56,748)	(48,011)
(Deficit) in the scheme	(13,436)	(15,527)	(15,772)

The following amounts have been recognised in the performance statements in the year to 31 July 2006 under the requirements of FRS 17:

	2006 £000	2005 £000
OPERATING PROFIT		
Current service cost	1,207	1,218
Past service cost	109	154
Total Operating Charge	1,316	1,372
OTHER FINANCE INCOME		
Expected return on pension scheme assets	2,746	2,316
Interest on pension scheme liabilities	(2,881)	(2,791)
Net Return	(135)	(475)
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)		
Actual return less expected return on pension scheme assets	1,602	4,580
Experience gains and losses arising on scheme liabilities	0	(20)
Changes in assumptions underlying the present value of the scheme liabilities	(492)	(5,392)
Actuarial gain/(loss) recognised in STRGL	1,110	(832)

## Notes to the accounts

	2006	2005
	£000	£000
MOVEMENT IN (DEFICIT) DURING THE YEAR		
(Deficit) in scheme at beginning of the year	(15,527)	(15,772)
Movement in the year:		
Current service cost	(1,207)	(1,218)
Contributions	2,432	2,924
Past service costs	(109)	(154)
Other financial income	(135)	(475)
Actuarial gain/(loss)	1 110	(832)
(Deficit) in scheme at end of year	(13,436)	(15,527)

Following the actuarial valuation at 6 April 2003 and in order to comply with the Minimum Funding Requirements laid down by law, the University increased its contribution rate from 13.15% to 32.65% of pensionable salaries with effect from 1 June 2004. This was subsequently reduced to a rate of 25.4% with effect from 1 June 2005 which reflected major changes in the scheme Trust Rules and Deeds, including a change to the employee contribution rate.

### DETAILS OF EXPERIENCE GAINS AND LOSSES FOR THE YEAR TO 31 JULY 2006

	2006	2005	2004	2003
Differences between the expected and actual return on scheme assets:				
Amount (£000)	1,602	4,580	69	(1,019)
Percentage of scheme assets	3%	14%	0%	(3%)
Experience gains and losses on scheme liabilities:				
Amount (£000)	0	(20)	(2,109)	0
Percentage of the present value of the scheme liabilities	0%	0%	(5%)	0%
Total amount recognised in statement of total recognised gains and losses:				
Amount (£000)	1,110	(831)	91	(6,128)
Percentage of the present value of the scheme liabilities	(2%)	(2%)	0%	(13%)

iii) North Yorkshire Pension Fund (within "other pensions schemes" at (c) above)

The assumptions used in this scheme are different to those used in respect of the University of Hull Pension and Assurance Scheme because the University has no control over the assumptions adopted by the actuary to this scheme.

A full actuarial valuation of this scheme was carried out at 31 March 2004 and financial assumptions updated 31 July 2006 by a qualified actuary. The major assumptions used by the actuary were:

	2006	2005	2004
Rate of increase in salaries	4.75%	4.4%	4.3%
Rate of increase in pensions in payment	3.00%	2.7%	2.8%
Discount rate	5.10%	5.0%	5.7%
Inflation assumption	3.00%	2.7%	2.8%

## Notes to the accounts

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

	Long-term expected return	2006 £000	Long-term expected return	2005 £000	Long-term expected return	2004 £000
Equities	7.00%	2,268	7.5%	1,923	7.5%	1,509
Bonds	5.10%	570	5.0%	514	5.5%	373
Property/Cash/Other	4.50%	197	4.8%	32	4.5%	105
		<u>3,035</u>		<u>2,469</u>		<u>1,987</u>

The following amounts at 31 July each year were measured in accordance with the requirements of FRS 17:

	2006 £000	2005 £000	2004 £000
Total market value of assets	3,035	2,469	1,987
Present value of scheme liabilities	(4,630)	(3,934)	(3,268)
(Deficit) in the scheme	<u>(1,595)</u>	<u>(1,465)</u>	<u>(1,281)</u>

## Notes to the accounts

The following amounts have been recognised in the performance statements in the year to 31 July 2006 under the requirements of FRS 17:

	2006	2005
	£000	£000
OPERATING PROFIT:		
Current service cost	259	197
Past service cost	8	-
Total Operating Charge	267	197
	£000	£000
OTHER FINANCE INCOME:		
Expected return on pension scheme assets	170	139
Interest on pension scheme liabilities	(201)	(188)
Net Return	(31)	(49)
	£000	£000
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES (STRGL)		
Actual return less expected return on pension scheme assets	178	291
Experience gains and losses arising on scheme liabilities	(134)	98
Changes in assumptions underlying the present value of the scheme liabilities	(167)	(521)
Actuarial (loss) recognised in STRGL	(123)	(132)
	£000	£000
MOVEMENT IN (DEFICIT) DURING THE YEAR		
(Deficit) in scheme at beginning of the year	(1,465)	(1,281)
Movement in the year:		
Current service cost	(259)	(197)
Contributions	291	194
Past service costs	(8)	-
Other financial income	(31)	(49)
Actuarial (loss)	(123)	(132)
(Deficit) in scheme at end of year	(1,595)	(1,465)

During the accounting period there have been no significant changes to the scheme.

## Notes to the accounts

### DETAILS OF EXPERIENCE GAINS AND LOSSES FOR THE YEAR TO 31 JULY 2006

	2006	2005	2004	2003
Differences between the expected and actual return on scheme assets:				
Amount (£000)	178	291	1	(33)
Percentage of scheme assets	6%	12%	0%	(2%)
Experience gains and losses on scheme liabilities:				
Amount (£000)	(134)	98	0	0
Percentage of the present value of the scheme liabilities	(3%)	2%	0%	0%
Total amount recognised in statement of total recognised gains and losses:				
Amount (£000)	(123)	(132)	(61)	(293)
Percentage of the present value of the scheme liabilities	(3%)	(3%)	(2%)	(10%)

When the above amounts are recognised in the financial statements, the group's net assets and income and expenditure reserves at 31 July become:

	2006 £000	2005 £000	2004 £000
Net assets excluding pension liability	68,894	65,112	59,213
Pension liability-UOH	(13,436)	(15,527)	(15,772)
Pension liability-NYPF	(1,595)	(1,465)	(1,281)
Net assets including pension liability	53,863	48,120	42,160
Income and expenditure reserve excluding pension liability	10,162	10,007	9,315
Pension liability-UOH	(13,436)	(15,527)	(15,772)
Pension liability-NYPF	(1,595)	(1,465)	(1,281)
Income and expenditure reserve including pension liability	(4,869)	(6,985)	(7,738)

## Notes to the accounts

### Consolidated and University

	2006	2005
	£000	£000
30. ACCESS FUNDS		
Balance brought forward at 1 August	8	0
Funding Council Grants	1011	935
Interest earned	8	9
	<u>1027</u>	<u>944</u>
Disbursed to students	(1,021)	(936)
Balance unspent at 31 July	<u>6</u>	<u>8</u>

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

### 31. TDA BURSARY FUNDS

	ITT TRAINING BURSARIES	SECONDARY SHORTAGE SUBJECTS	HOLDBACK PROCEEDS	TOTAL
	£000	£000	£000	£000
Balance brought forward at 1 August 2005	58	3	2	63
TDA Grants	1,639	63	0	1,702
	<u>1,697</u>	<u>66</u>	<u>2</u>	<u>1,765</u>
Disbursed to students	(1,559)	(66)	(2)	(1,627)
Balance unspent at 31 July 2006	<u>138</u>	<u>0</u>	<u>0</u>	<u>138</u>

TDA bursary funds are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

	2006	2005
	£000	£000
32. TDA MINORITY ETHNIC RECRUITMENT		
Balance brought forward 1 August	0	0
TDA Grants	11	8
	<u>11</u>	<u>8</u>
Expenditure	(7)	(8)
Balance unspent at 31 July	<u>4</u>	<u>0</u>

These are funds for aiding recruitment and retention of students from minority ethnic backgrounds and are excluded from the Income and Expenditure Account.

# Notes to the accounts

## 33. UNIVERSITY COMPANIES AND OTHER INTERESTS

Details of subsidiaries and other investments are given in note 11.

The University of Hull Maritime History Trust Limited is a company limited by guarantee which has charity status. It has been formed for the advancement of the education of the public by promotion of maritime historical studies at the University of Hull and the provision and facilitation of research in all aspects of maritime history. The Trust has ten trustees, of whom three are employees of the University.

During the year payments were made to the Trust for donations received amounting to £2,857 (2005: £538). The University payment from the Trust for payments made on its behalf amounted to £832 (2005: £3,423). The amount owing to the University at 31 July 2006 was £nil (2005: £nil). The amount owing by the University to the Trust at 31 July 2006 was £4,055 (2005: £9,035).

The Ferens Education Trust is constituted by a deed of trust and is registered as a charitable body. It has been formed to promote the advancement of liberal, technical and professional education and knowledge in the East Riding of Yorkshire and to assist the University of Hull in the furtherance of the objects for which it was founded. The Trust has seven trustees, of whom two are employees of the University.

During the year grants were made from the Trust to the University amounting to £26,673 (2005: £20,771). The amount owing to the University at 31 July 2006 was £187 (2005: £1,748).

The above Trusts are not consolidated into the financial statements because the University of Hull does not exercise sufficient control or influence.

## 34. RELATED PARTY DISCLOSURE

During the year ended 31 July 2006, the University paid a grant of £831,297 (2005: £716,982) to the Students Union. Further payments were made to the Union of £67,008 (2005: £54,601) in respect of goods and other services rendered. The Union made payments to the University of £392,300 (2005: £338,372) in respect of facilities recharges. At 31 July 2006 the University owed the Union £2,704 (2005: £4,152). An amount of £88,945 (2005: £83,506) was owing from the Union to the University.

During the year ended 31 July 2006, the University made payments to EMIH Ltd of £53,719 (2005: £23,380) in respect of rent for the flume laboratory and the use of and admission to facilities. EMIH Ltd made payments to the University of £6,822 (2005: £14,461) in respect of catering recharges. At the year end the University owed EMIH Ltd £10,770 (2005: £57). An amount of £nil (2005: £nil) was owing from EMIH Ltd to the University. The company has charitable status with a Board of nine directors, three of whom are nominees of the University.

During the year ended 31 July 2006, the University made payments to Information by Design Ltd of £1,057 (2005: £587) in respect of design work. Information by Design Ltd made payments to the University of £39,182 (2004: £58,670) in respect of project support services and postal/cleaning charges. At the year end the University owed Information by Design Ltd £nil (2005: £nil). An amount of £2,990 (2005: £3,846) was owing from Information by Design Ltd.

During the year ended 31 July 2006, the University made payments to Knowledge Base (UK) Ltd of £nil (2005: £6,300) in respect of training. Knowledge Base (UK) Ltd made payments to the University of £nil (2005: £3,045) for Teaching Company Schemes. At the year end the University owed Knowledge Base (UK) Ltd £nil (2005: £nil). An amount of £nil (2005: £nil) was owing from Knowledge Base (UK) Ltd to the University.

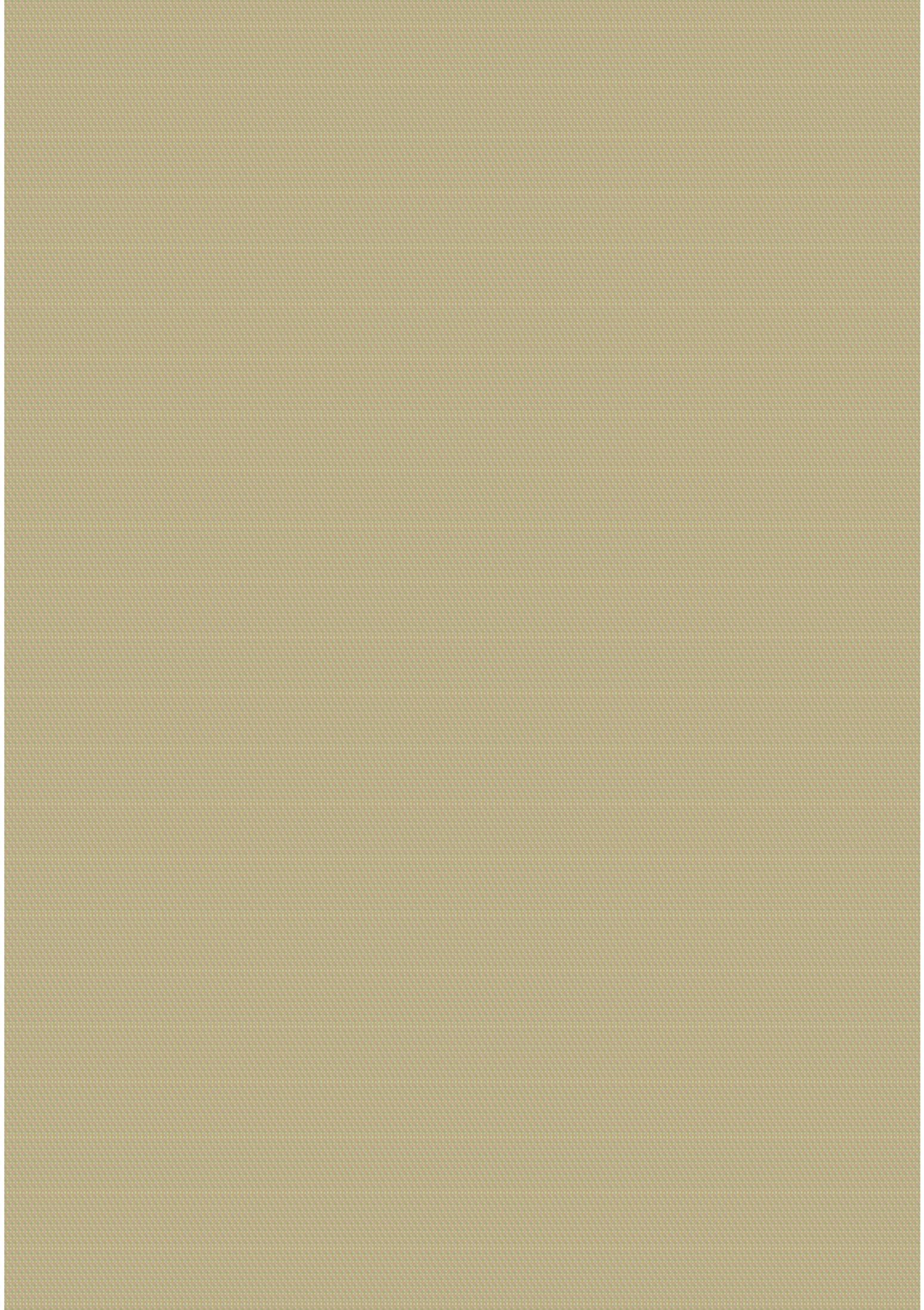
During the year ended 31 July 2006, the University made payments to IT Interface Ltd of £42,064 (2005: £131,477) for IT Training. IT Interface Ltd made payments to the University of £nil (2005: £nil) for services rendered. At the year end the University owed IT Interface Ltd £nil (2005: £2,338). An amount of £nil (2005: £nil) was owing from IT Interface Ltd to the University.

During the year ended 31 July 2006 the University made payments to Micro Chemical Systems Ltd of £nil (2004: £135) for reimbursement of expenses. Micro Chemical Systems Ltd made payments to the University of £nil (2005: £23,966) for goods and services. At the year end the University owed Micro Chemical Systems Ltd £nil (2005: £2,471). An amount of £nil (2005: £nil) was owing from Micro Chemical Systems Ltd to the University.

During the year ended 31 July 2006, the University made payments to Kingston Chemicals Ltd of £88 (2005: £nil) for chemicals and equipment. Kingston Chemicals Ltd made payments to the University of £19,718 (2005: £72,176) for goods and services. At the year end the University owed Kingston Chemicals Ltd £nil (2005: £nil). An amount of £2620 (2005: £nil) was owing from Kingston Chemicals Ltd to the University.

### 35. CONTINGENT LIABILITY

Recent decisions handed down by the European Court of Justice (ECJ) may increase the liability for pension of UK part time employers, such as the University of Hull. The implications of the ECJ decision are unclear and clarification is still awaited, following appeals lodged as a result of test cases through an employment tribunal. In view of this uncertainty, no financial provision has been made in the financial statements in relation to this matter.



SHORTLISTED FOR  
UNIVERSITY OF THE  
YEAR 2019 ONE OF THE  
TOP 5 MAINSTREAM  
UNIVERSITIES National Student Survey IN THE  
TOP 20 FOR TEACHING  
QUALITY 2018 IN THE TOP  
5 FOR GRADUATE  
EMPLOYABILITY HE Skills Agency