



# 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 (from 2004)  
Professor Graham Dockray, BSc, PhD (from 2004)  
Professor Julian Crampton, BSc, PhD (to 2004)

## **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	DLA, Liverpool

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# The Council of the University

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<b>Names</b>	<b>Membership of key committees</b>
<i>The Chancellor</i> The Right Honourable The Lord Owen CH	
<i>The Pro Chancellor</i> Lawrence Holden, DL,LLB (until 24 January 2004) Michael Potts, DL, FRSA, FCA (from 24 January 2004)	4 2 (until 25 March 2004),4
<i>The Vice Chancellor</i> Professor Drummond Bone, MA, FRSA	1,2,3
<i>The Treasurer</i> Dr. Graham Thelwall Jones, MA, MSc, PhD (until 24 January 2004) David McDonnell, DL, FCA, FRSA (from January 2004)	1,2,3 1,2 (until 25 March 2004),3
<i>The Deputy Treasurer</i> Neil Kemsley, BCom, ACIS	1,2,3
<i>The Pro-Vice Chancellors:</i> Professor Julian Crampton BSc, PhD Professor Kelvin Everest, BA, PhD Professor Chris Gaskell, BVSc, PhD, DVR, MRCVS	1,2 (until 25 March 2004),3 1,2,3 1,2 (until 25 March 2004),3
<i>2002-2005</i> John Flamson, BA, MCD, MRTPI, MIMgt	2 (from 25 March 2004), 4
Michael Potts (President of Council until 24 January 2004)	1,2,3
Alan Waterworth, JP, DL, MA, HonLLD (until 18 December 2003)	
<i>2002-2004</i> Professor John Beacham, CBE, PhD, FRSC The Right Honourable The Earl of Derby DL	
<i>2003-2005</i> Mark Blundell, BA (President of Council (from January 2004) John Roberts, CBE, BEng, CEng, DMS, FIEE, FCCA David McDonnell (until 24 January 2004)	1,2,3 4
<i>2003-2006</i> Martin Cogley, BA, PGCE James Keaton, BSc, LL.D, FSDC, FBIM Judith Greensmith, BCom, DL (from 5 November 2003)	1 2 (from 25 March 2004), 4
<i>2004</i> Christine McCann, BA, MSc (from 18 December 2003)	
<i>2001-2004</i> Professor Michael Hoey, BA, PhD Eileen Thornton, MCSP, DipTP, BA, MEd	

# The Council of the University - *continued*

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<b>Names</b>	<b>Membership of key committees</b>
<i>2002-2004</i> Jane Kennedy, MA, CQSW, DASS	
<i>2002-2005</i> Professor Nicholas Kuszniir, BSc, PhD Professor Ole Petersen, MD	
<i>2003-2006</i> Professor Anu Arora, LLB, PhD, Barrister	2 (from 25 March 2004)
<i>2001-2004</i> Paula Ridley, OBE, JP, DL, MA, HonLLD (until May 2004)	1
<i>2004-2007</i> Helena V Hurt Pinsent (from May 2004)	
<i>2003-2004</i> Hannah Charnock (until June 2004)	2 (from 25 March 2004)
<i>2004-2005</i> David Winstanley (from June 2004)	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.

Other members of Audit Committee in 2003-04 who were not members of Council:

Mr. R. H. Allardice (until October 2003)  
Professor J. W. Bruce (until April 2004)  
Professor D. J. Bacon

# Responsibilities of the Council of the University

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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

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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.

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

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I am pleased in my first year as Treasurer to report on another successful year for the University.

## Financial Highlights

	<b>2004</b>	2003
	<b>£000</b>	£000
Total Income	<b>233,701</b>	219,993
Total Expenditure	<b>223,354</b>	207,544
	<hr/>	<hr/>
Surplus for the Year	<b>10,347</b>	12,449
	<hr/>	<hr/>

Total income was 6.2% up on the previous year and the actual outturn was also better than budget. Total expenditure rose by 7.6% reflecting decisions taken to invest in areas of the University's activities and a number of cost increases that were not within the University's control. One such cost is that of the provision of a final salary pension scheme for our non-academic staff. The cost to the University rose by 2% in 2004 and will rise by a further 1% in each of the next two financial years. This represents an increase in cost of some £0.8 million and the situation is being closely monitored by the Scheme's Trustees.

On a positive note, the University has continued to grow its income from externally funded research, recording an increase of £1.4 million to a total of £58.6 million. Already, in the current financial year, there are encouraging signs that this growth can be sustained, thus providing early returns on the increased investment by the University in academic developments. Also encouraging is the increase in income from overseas tuition fees. Income from this source reached a record level for the University of £16.6 million, some £3 million ahead of last year. Early indications for the current year show recruitment levels being maintained despite well publicised visa difficulties for overseas students.

In terms of home recruitment, all targets were met for 2003-04 and income from this source was slightly ahead of budget. The attractiveness of the University to students from the UK/EU remains strong.

## Fixed Assets

During the year additions of £20.7 million were made to fixed assets. Of that total, additions to freehold land and buildings amounted to £15.8 million with the balance being additions to equipment assets. The principal additions to land and buildings included expenditure on the extension to the Sports Centre (£2.6 million), the Bio-Sciences building (£2.7 million) and the Roy Castle Centre (£3.1 million) The funding for these additions came from grants of £11.5 million and University funds of £9.2 million. The University is continuing to invest in its estate and infrastructure and going forward has capital commitments totaling £85 million, as set out in note 13 to the accounts.

## Endowment Assets

The past financial year has seen continued, but slow, recovery in global stock markets. The University's endowments have had a good year, experiencing an overall increase of nearly 5%, well ahead of the rate of inflation. During the year the University Development Trust was wound up and its assets transferred into the endowment funds. In addition just under £0.5 million of new money was added.

The performance of our fund managers continues to be monitored on 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.

# Report of the Treasurer - *continued*

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## **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 the University's trade creditors outstanding represented approximately 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 on 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.

Finally, the year under review has been one of transition for the Finance Function. The previous Director of Finance, John Sandbach, tragically died last summer. However the University was very fortunate to secure the services of Michael Yuille as our new Director. I commend Tony Wade, the Deputy Director for holding the reins so well during the transitional period.

DAVID McDONNELL DL FCA FRSA  
Treasurer



# Auditors' Report

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## **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 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 University 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 Institutions, 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 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 Institutions. 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 University, 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. We also report to you if, in our opinion, the University has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the 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.

# Auditors' Report - *continued*

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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 mis-statement, 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:

- i. The financial statements give a true and fair view of the state of affairs of the University and the group at 31 July 2004, and of the surplus of income over expenditure, recognised gains and losses and cashflows of the Group for the year then ended; and the statements 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 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 memoranda with the Higher Education Funding Council for England dated August 2000 and October 2003.

PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
Liverpool  
16 December 2004

## Notes

- a) The maintenance and integrity of the University of Liverpool 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 2004

	Note	2003-2004 £000	2002-2003 £000
<b>Income</b>			
Funding Council Grants	2	83,699	79,786
Academic fees and support grants	3	42,027	37,972
Research grants and contracts	4	58,585	57,148
Other operating income	5	43,614	39,376
Endowment income and interest receivable	6	5,776	5,711
<b>Total income</b>		<b>233,701</b>	<b>219,993</b>
<b>Expenditure</b>			
Staff costs	7	133,854	123,464
Other operating expenses		79,461	75,006
Depreciation		9,670	8,664
Interest payable		371	415
<b>Total expenditure</b>		<b>223,356</b>	<b>207,549</b>
Surplus for the year, before taxation		10,345	12,444
Taxation	8	(2)	(5)
<b>Surplus on continuing operations after depreciation of assets and disposal of assets and tax</b>		<b>10,347</b>	<b>12,449</b>
Transfer (to)/from accumulated income within specified endowments		284	(424)
Surplus for the year retained within general reserves		10,631	12,025

- 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 2004

	Note	2004 £000	2003 £000
<b>Fixed Assets</b>			
Tangible assets	11	157,622	146,571
Investments	14	10,333	9,658
		<u>167,955</u>	<u>156,229</u>
<b>Endowment assets</b>	15	89,337	85,161
<b>Current assets</b>			
Stocks and stores		469	732
Debtors and prepayments	17	35,870	33,738
Cash in hand, at bank and on deposit		56,253	45,900
		<u>92,592</u>	<u>80,370</u>
Creditors: Amounts falling due within one year	18	<u>(43,062)</u>	<u>(36,517)</u>
<b>Net current assets</b>		<u>49,530</u>	<u>43,853</u>
<b>Total assets less current liabilities</b>		<u>306,822</u>	<u>285,243</u>
Creditors: Amounts falling due after more than one year	19	<u>(4,591)</u>	<u>(4,795)</u>
<b>Net assets</b>		<u>302,231</u>	<u>280,448</u>
<b>Represented by:</b>			
<b>Deferred capital grants</b>	20	98,597	92,031
<b>Endowments</b>			
Specific	16	63,133	60,256
General	16	26,204	24,905
		<u>89,337</u>	<u>85,161</u>
<b>Reserves</b>			
Revaluation reserve	21	2,630	2,345
Income and expenditure	22	111,667	100,911
		<u>114,297</u>	<u>103,256</u>
<b>Total funds</b>		<u>302,231</u>	<u>280,448</u>

The financial statements on pages 11 to 34 were approved by the Council on 16th December 2004 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 2004

	Note	2004 £000	2003 £000
<b>Fixed assets</b>			
Tangible assets	12	<b>156,601</b>	145,622
Investments	14	<b>14,884</b>	14,209
		<hr/>	<hr/>
		<b>171,485</b>	159,831
<b>Endowment assets</b>	15	<b>89,337</b>	82,366
<b>Current assets</b>			
Stocks and stores		<b>453</b>	716
Debtors and prepayments	17	<b>37,223</b>	36,277
Cash in hand, at bank and on deposit		<b>55,850</b>	44,237
		<hr/>	<hr/>
		<b>93,526</b>	81,230
<b>Creditors: Amounts falling due within one year</b>	18	<b>(47,225)</b>	(40,511)
		<hr/>	<hr/>
<b>Net current assets</b>		<b>46,301</b>	40,719
		<hr/>	<hr/>
<b>Total assets less current liabilities</b>		<b>307,123</b>	282,916
<b>Creditors: Amounts falling due after more than one year</b>	19	<b>(4,472)</b>	(4,674)
		<hr/>	<hr/>
<b>Net assets</b>		<b>302,651</b>	278,242
		<hr/>	<hr/>
<b>Represented by:</b>			
<b>Deferred capital grants</b>	20	<b>98,597</b>	92,031
<b>Endowments</b>			
Specific	16	<b>63,133</b>	57,461
General	16	<b>26,204</b>	24,905
		<hr/>	<hr/>
		<b>89,337</b>	82,366
<b>Reserves</b>			
Revaluation reserve	21	<b>2,630</b>	2,345
Income and expenditure	22	<b>112,087</b>	101,500
		<hr/>	<hr/>
		<b>114,717</b>	103,845
<b>Total funds</b>		<b>302,651</b>	278,242
		<hr/>	<hr/>

The financial statements on pages 11 to 34 were approved by the Council on 16th December 2004 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 2004

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	Notes	2003-2004 £000	2002-2003 £000
<b>Cash flow from operating activities</b>	24	<b>12,973</b>	14,011
Returns on investments and servicing of finance	25	<b>5,405</b>	5,296
Taxation	8	<b>2</b>	5
Capital expenditure and financial investment	26	<b>(8,729)</b>	(10,213)
Management of liquid resources	27	<b>(3,079)</b>	(7,647)
Financing	28	<b>(177)</b>	(182)
		—	—
<b>Increase in cash in the period</b>		<b><u>6,395</u></b>	<u>1,270</u>
<b>Reconciliation of net cash flow to movement in net funds/(debt)</b>			
Increase/(decrease) in cash in the period		<b>6,395</b>	1,270
Cash inflow from liquid resources		<b>3,079</b>	7,647
Change in net debt resulting from cash flows		<b><u>177</u></b>	<u>182</u>
Movement in net funds in period		<b>9,651</b>	9,099
Net funds at 1 August		<b>49,126</b>	40,027
		—	—
<b>Net funds at 31 July</b>	29	<b><u>58,777</u></b>	<u>49,126</u>

# Statement of Consolidated Total Recognised Gains and Losses

for the year ended 31 July 2004

	2004 £000	2003 £000
Surplus on continuing operations after depreciation of assets and disposal of assets and tax	10,347	12,449
Unrealised surplus on revaluation of fixed assets	285	319
Other movements direct from reserves	125	(8)
	-----	-----
Movement in income and expenditure reserves (note 22)	10,757	12,760
Appreciation of Endowment Asset Investments	4,020	2,821
New endowments	1,893	2,849
Endowment balances utilised	(1,453)	-
	-----	-----
<b>Total recognised gains relating to the year</b>	<b>15,217</b>	<b>18,430</b>
	-----	-----
<b>Reconciliation</b>		
Opening reserves and endowments	188,417	169,987
Total recognised gains for the year	15,217	18,430
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<b>Closing reserves and endowments</b>	<b>203,634</b>	<b>188,417</b>
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# Notes to the Accounts

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## 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 Institutions (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 2004. 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 funded through the Liverpool School of Tropical Medicine and these are also included in that institution's financial statements.

Consequent upon implementation of the revised Statement of Recommended Practice it has been necessary to restate the comparative year 2002-03 in the Consolidated Income and Expenditure Account and related notes.

(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*

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(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

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
<b>2 Funding Council Grants</b>		
Recurrent grant - HEFCE	<b>75,776</b>	72,850
Specific grants	<b>4,615</b>	3,412
Deferred capital grant released in year (see note 20)	<b>3,189</b>	3,269
Teacher Training Agency	<b>119</b>	255
	—————	—————
	<b>83,699</b>	79,786
	—————	—————
<b>3 Academic fees and support grants</b>		
Full-time home students	<b>22,723</b>	21,755
Full-time overseas students	<b>16,636</b>	13,510
Part-time students	<b>1,341</b>	1,316
Continuing education	<b>129</b>	139
Special courses	<b>909</b>	872
Support grants	<b>289</b>	380
	—————	—————
	<b>42,027</b>	37,972
	—————	—————

# Notes to the Accounts - *continued*

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## INCOME - continued

	2003-2004 £000	2002-2003 £000
<b>4 Research grants and contracts</b>		
<b>Income</b>		
Research grants	32,669	31,005
Research contracts	25,916	26,143
	-----	-----
Total income	58,585	57,148
	-----	-----
<b>Expenditure</b>		
Research Grants	26,455	25,178
Research Contracts	22,822	23,308
	-----	-----
Total expenditure	49,277	48,486
	-----	-----
Contribution to indirect costs	9,308	8,662
	-----	-----
<b>5 Other operating income</b>		
Residences and catering	11,038	11,619
Health Authorities	7,187	7,004
Other services	12,133	8,708
Donations	514	469
Other income	12,742	11,576
	-----	-----
	43,614	39,376
	-----	-----
<b>6 Endowment income and interest receivable</b>		
Income from specific endowments	1,486	1,206
Income from general endowments	1,682	1,987
Income from short term deposits	2,200	2,392
Other investment income	408	126
	-----	-----
	5,776	5,711
	-----	-----

# Notes to the Accounts - *continued*

## EXPENDITURE

	Staff	Other Operating Expenses	Depreciation	Total	2003 Total
	£000	£000	£000	£000	£000
<b>7 Analysis of Expenditure by Activity</b>					
Academic departments	69,779	16,106	1,517	<b>87,402</b>	81,251
Research grants and contracts	26,972	22,305	2,936	<b>52,213</b>	51,254
Academic services	6,808	5,045	455	<b>12,308</b>	10,641
General educational expenditure	2,597	5,208		<b>7,805</b>	7,163
Maintenance of premises	6,780	10,547	4,195	<b>21,522</b>	20,811
Administration and central services (1)	7,732	4,451	25	<b>12,208</b>	11,094
Students & staff facilities & amenities	1,051	1,864	-	<b>2,915</b>	2,594
Residences and catering (2)	4,366	6,575	449	<b>11,390</b>	11,599
Severance costs and unfunded pensions	2,619	-	-	<b>2,619</b>	1,277
Miscellaneous expenditure	170	2,042	8	<b>2,220</b>	1,567
Other services rendered	4,980	5,689	85	<b>10,754</b>	8,298
	<u>133,854</u>	<u>79,832</u>	<u>9,670</u>	<u><b>223,356</b></u>	<u>207,549</u>

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

	2003-2004 £000	2002-2003 £000
PricewaterhouseCoopers LLP - Audit Fee	41	40
- University	35	-
- Prior year	13	14
- Subsidiaries	22	62
- Taxation, consultancy and accountancy services	32	40
- Grant certification fee	191	132
KPMG LLP - Internal Audit		

- (2) Residences and Catering 'Other Operating Expenses' includes interest payable of £371,000 (see also note 25)

	2003-2004 £000	2002-2003 £000
<b>8 Taxation</b>		
United Kingdom corporation tax at 30%	<u>(2)</u>	<u>(5)</u>
	<u>(2)</u>	<u>(5)</u>

# Notes to the Accounts - *continued*

## EXPENDITURE - *continued*

	<b>2003-2004</b>	2002-2003
	<b>£000</b>	£000
<b>9 Staff costs</b>		
Staff costs were:		
Salaries	<b>110,127</b>	103,296
Social security costs	<b>9,095</b>	7,903
Pension costs (note 30)	<b>14,632</b>	12,265
	<hr/> <b>133,854</b> <hr/>	<hr/> 123,464 <hr/>
Emoluments of the Vice-Chancellor, including benefits in kind and pension contribution	<b>188</b>	176

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 £22,562 (2003: £20,980)

The comparative figure includes emoluments of the previous Vice Chancellor who retired on 31 August 2002.

Compensation for loss of office paid to members of staff earning in excess of £50,000 per annum	<b>61</b>	102
-------------------------------------------------------------------------------------------------	-----------	-----

	<b>Number</b>	Number
Staff numbers by major category		
Academic/Clinical	<b>2,167</b>	2,088
Technical	<b>458</b>	457
Clerical	<b>720</b>	693
Other	<b>468</b>	488
	<hr/> <b>3,813</b> <hr/>	<hr/> 3,726 <hr/>

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	<b>51</b>	36
£80,000 – £89,999	<b>28</b>	27
£90,000 – £99,999	<b>8</b>	12
£100,000 – £109,999	<b>11</b>	10
£110,000 – £119,999	<b>5</b>	7
£120,000 – £129,999	<b>14</b>	7
£130,000 – £139,999	<b>4</b>	5
£140,000 – £149,000	<b>5</b>	4
£150,000 – £159,000	<b>1</b>	-
Over £160,000	<b>1</b>	-

# Notes to the Accounts - *continued*

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## 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 31.7.04 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	(4,674)
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	3,477	1,801	234
N. Kemsley and Professor C.J. Gaskell, members of Liverpool School of Tropical Medicine, which funds posts and research grants and contracts and receives a grant from the University	7,554	10,561	(168)
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	1,090	24	173
M.D. Carr, non-executive director of Midas Capital Partners Ltd which manages some of the University's endowment assets	-	147	-

# 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
<b>Cost at 1 August 2003</b>	<b>158,755</b>	<b>19,193</b>	<b>5,757</b>	<b>27,648</b>	<b>211,353</b>
Additions in the year at cost	15,792	89	-	4,840	20,721
Less: Disposals during the year	-	-	-	2,227	2,227
<b>Cost at 31 July 2004</b>	<b>174,547</b>	<b>19,282</b>	<b>5,757</b>	<b>30,261</b>	<b>229,847</b>
<b>Accumulated Depreciation</b>					
At 1 August 2003	38,186	5,813	1,189	19,594	64,782
Charge for the year	3,852	369	188	5,261	9,670
Less: Eliminated on disposals	-	-	-	2,227	2,227
<b>Depreciation at 31 July 2004</b>	<b>42,038</b>	<b>6,182</b>	<b>1,377</b>	<b>22,628</b>	<b>72,225</b>
<b>Net Book Value</b>					
<b>31 July 2004</b>	<b>132,509</b>	<b>13,100</b>	<b>4,380</b>	<b>7,633</b>	<b>157,622</b>
<b>1 August 2003</b>	<b>120,569</b>	<b>13,380</b>	<b>4,568</b>	<b>8,054</b>	<b>146,571</b>

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 £73.2m, and a cost of £102.4m 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 £552 million.

Included in the net book value of leasehold assets is a net sum of £12.9 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
<b>Cost at 1 August 2003</b>	<b>158,755</b>	<b>19,175</b>	<b>5,757</b>	<b>24,613</b>	<b>208,300</b>
Additions in the year at cost	15,792	89	-	4,628	20,509
Less: Disposals during the year	-	-	-	2,227	2,227
<b>Cost at 31 July 2004</b>	<b>174,547</b>	<b>19,264</b>	<b>5,757</b>	<b>27,014</b>	<b>226,582</b>
<b>Accumulated Depreciation</b>					
At 1 August 2003	38,186	5,795	1,189	17,508	62,678
Charge for the year	3,852	369	188	5,121	9,530
Less: Eliminated on disposals	-	-	-	2,227	2,227
<b>Depreciation at 31 July 2004</b>	<b>42,038</b>	<b>6,164</b>	<b>1,377</b>	<b>20,402</b>	<b>69,981</b>
<b>Net Book Value</b>					
<b>31 July 2004</b>	<b>132,509</b>	<b>13,100</b>	<b>4,380</b>	<b>6,612</b>	<b>156,601</b>
<b>1 August 2003</b>	<b>120,569</b>	<b>13,380</b>	<b>4,568</b>	<b>7,105</b>	<b>145,622</b>

### 13 Capital commitments

	2004 £million	2003 £million
Authorised not yet contracted	79	19
Authorised and contracted	6	9
	<b>85</b>	<b>28</b>



# Notes to the Accounts - *continued*

## BALANCE SHEET - continued

### 14 Fixed asset investments

	Consolidated		University	
	2004 £000	2003 £000	2004 £000	2003 £000
Market value of fixed asset investments	<b>7,214</b>	6,544	<b>7,214</b>	6,544
Properties	<b>3,119</b>	3,114	<b>3,119</b>	3,114
University companies at cost				
University of Liverpool Energy Company Ltd (ULEC)	-	-	<b>1</b>	1
University of Liverpool Construction Company Ltd (ULCCo)	-	-	<b>4,000</b>	4,000
University of Liverpool Commercial Services Ltd (ULCS)	-	-	<b>550</b>	550
	<b>10,333</b>	9,658	<b>14,884</b>	14,209

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 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:

	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
Moody Marine	33.3	Neocare	24.9

None of these companies are considered to be material and are not consolidated in these financial statements.

### 15 Endowment assets

	Consolidated		University	
	2004 £000	2003 £000	2004 £000	2003 £000
As at 1 August	<b>85,161</b>	79,067	<b>82,366</b>	76,984
Purchases of investments	<b>12,468</b>	19,800	<b>15,263</b>	19,088
Disposals of investments	<b>(11,104)</b>	(17,520)	<b>(11,104)</b>	(17,520)
Appreciation on revaluation	<b>2,812</b>	3,814	<b>2,812</b>	3,814
As at 31 July	<b>89,337</b>	85,161	<b>89,337</b>	82,366

# Notes to the Accounts - *continued*

## BALANCE SHEET - continued

### 16 Endowments

	Specific £000	General £000	Total £000
CAPITAL BALANCES			
At 1 August 2003	52,672	24,905	77,577
Assets transferred from the Development Trust	2,795	-	2,795
New endowments received in the year	1,893	-	1,893
Capital balances utilised	(1,453)	-	(1,453)
Realised profits in year	819	388	1,207
Appreciation of endowment asset investments	1,902	911	2,813
	<u>58,628</u>	<u>26,204</u>	<u>84,832</u>
INCOME BALANCES (Held as cash deposits)			
At 1 August 2003	4,789	-	4,789
Income for year	1,486	1,682	3,168
Payments in the year	(1,770)	(1,682)	(3,452)
	<u>4,505</u>	<u>-</u>	<u>4,505</u>
At 31 July 2004	4,505	-	4,505
	<u>63,133</u>	<u>26,204</u>	<u>89,337</u>

	Consolidated		University	
	2004 £000	2003 £000	2004 £000	2003 £000
<b>17 Debtors</b>				
Amounts falling due within one year:				
Debtors - trade	<b>24,252</b>	23,628	<b>24,203</b>	23,553
- intergroup	-	-	<b>1,402</b>	2,614
Prepayments and accrued income	<b>11,618</b>	10,110	<b>11,618</b>	10,110
	<u><b>35,870</b></u>	<u>33,738</u>	<u><b>37,223</b></u>	<u>36,277</u>

### 18 Creditors: Amounts falling due within one year

Bank Overdraft	<b>1,302</b>	1,131	<b>1,302</b>	1,131
Obligations under finance leases	<b>202</b>	188	<b>202</b>	188
Creditors - trade	<b>27,931</b>	23,440	<b>26,125</b>	23,088
- intergroup	-	-	<b>6,300</b>	4,504
Corporation tax	-	-	-	-
Social security and other taxation	<b>3,024</b>	2,877	<b>3,024</b>	2,877
Accrued charges	<b>10,603</b>	8,881	<b>10,272</b>	8,723
	<u><b>43,062</b></u>	<u>36,517</u>	<u><b>47,225</b></u>	<u>40,511</u>

# Notes to the Accounts - *continued*

## BALANCE SHEET - continued

	Consolidated		University	
	2004	2003	2004	2003
	£000	£000	£000	£000
<b>19 Creditors: Amounts falling due after one year</b>				
Obligations under finance leases				
due 2-5 years	971	902	971	902
due over 5 years	3,501	3,772	3,501	3,772
Other creditors	119	121	-	-
	<u>4,591</u>	<u>4,795</u>	<u>4,472</u>	<u>4,674</u>

## 20 Deferred capital grants - university and consolidated

	Funding Council	Other Grants & Benefactions	Total
	£000	£000	£000
At 1 August 2003			
Buildings	68,296	17,879	86,175
Equipment	2,383	3,473	5,856
Total	<u>70,679</u>	<u>21,352</u>	<u>92,031</u>
Cash received/receivable			
Buildings	7,195	2,321	9,516
Equipment	1,337	2,435	3,772
Total	<u>8,532</u>	<u>4,756</u>	<u>13,288</u>
Released to income and expenditure			
Buildings	1,942	494	2,436
Equipment	1,247	3,039	4,286
Total	<u>3,189</u>	<u>3,533</u>	<u>6,722</u>
At 31 July 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>

# Notes to the Accounts - *continued*

## BALANCE SHEET - continued

	<b>2004</b>	2003
	<b>£000</b>	£000
<b>21 Revaluation reserve</b>		
Consolidated and University Balance 1 August 2003	<b>2,345</b>	2,026
Unrealised profits on investments	<b>285</b>	319
Balance 31 July 2004	<b>2,630</b>	2,345

## 22 Income and expenditure reserves

	<b>Consolidated</b>		<b>University</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>£000</b>	£000	<b>£000</b>	£000
Balance 1 August 2003	<b>100,911</b>	88,894	<b>101,500</b>	90,112
Surplus on income and expenditure account	<b>10,631</b>	12,025	<b>10,462</b>	11,396
Other transfers	<b>125</b>	(8)	<b>125</b>	(8)
Balance 31 July 2004	<b>111,667</b>	100,911	<b>112,087</b>	101,500
<b>Represented by:</b>				
Allocated to University Departments	<b>33,723</b>	29,083	<b>33,723</b>	29,083
University Development Fund	<b>19,334</b>	17,948	<b>19,334</b>	17,948
Other central reserves	-	396	-	396
For capital purposes	<b>59,030</b>	54,073	<b>59,030</b>	54,073
Subsidiaries	<b>(420)</b>	(589)	-	-
	<b>111,667</b>	100,911	<b>112,087</b>	101,500

## 23 Access Funds

	<b>Year ended 31 July 2004</b>	Year ended 31 July 2003
	<b>£000</b>	£000
Funding Council grants	<b>981</b>	923
Interest earned	<b>6</b>	8
	<b>987</b>	931
Disbursed to students	<b>(986)</b>	(907)
Audit fees	<b>(1)</b>	(1)
Balance unspent at 31 July	<b>-</b>	23

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 2004 £000	Year ended 31 July 2003 £000
<b>24 Reconciliation of Consolidated Operating Surplus to Net Cash Inflow from Operating Activities</b>		
Surplus on continuing operations after depreciation of assets	<b>10,629</b>	12,020
Depreciation (notes 1 & 11)	<b>9,670</b>	8,664
Deferred capital grants released to income (notes 2 & 20)	<b>(6,722)</b>	(6,601)
Finance lease interest charge	<b>371</b>	415
Decrease in stocks	<b>263</b>	153
(Increase)/decrease in debtors	<b>(2,132)</b>	5,322
Increase/(decrease) in creditors	<b>6,545</b>	(243)
Investment income	<b>(5,776)</b>	(5,711)
Non-cash movement from reserves	<b>125</b>	(8)
<b>Net cash inflow from operating activities</b>	<b>12,973</b>	14,011
<b>25 Returns on Investments and Servicing of Finance</b>		
Income from endowments	<b>3,168</b>	3,193
Other interest received	<b>2,200</b>	2,392
Other investment income	<b>408</b>	126
Interest element of finance lease rental payment	<b>(371)</b>	(415)
<b>Net cash inflow from returns on investment and servicing of Finance</b>	<b>5,405</b>	5,296
<b>26 Capital Expenditure and Financial Investment</b>		
Purchase of tangible fixed assets	<b>(20,721)</b>	(27,993)
Payments to acquire endowment assets	<b>(11,721)</b>	(17,612)
Receipt from sale of endowment assets	<b>10,014</b>	16,824
Deferred capital grants received	<b>10,464</b>	15,007
Endowments received	<b>3,235</b>	3,561
<b>Net cash (outflow) from capital expenditure and Financial investment</b>	<b>(8,729)</b>	(10,213)

# Notes to the Accounts – *continued*

## CASH FLOW - continued

	Year ended 31 July 2004 £000	Year ended 31 July 2003 £000		
<b>27 Management of Liquid Resources</b>				
Purchase of Investments	647	(647)		
Placing of deposits	(3,800)	(5,700)		
Movement in endowment assets	74	(1,300)		
<b>Net cash outflow from management of liquid resources</b>	<u>(3,079)</u>	<u>(7,647)</u>		
 <b>28 Financing</b>				
Debt due beyond a year:				
Capital element of finance lease rental payments	(177)	(182)		
<b>Net cash (outflow) from financing</b>	<u>(177)</u>	<u>(182)</u>		
 <b>29 Analysis of Changes in Net Funds</b>				
	At 1 August 2003 £000	Cashflows £000	Other changes £000	At 31 July 2004 £000
Cash in hand, and at bank	39,001	6,553	-	45,554
Endowment assets investments	8,692	(73)	-	8,619
Overdrafts	(1,131)	(170)	-	(1,301)
	<u>46,562</u>	<u>6,310</u>	<u>-</u>	<u>52,872</u>
Finance leases				
Debt due within 1 year	(188)	(14)	-	(202)
Debt due after 1 year	(4,795)	202	-	(4,593)
Current asset investments	7,547	3,153	-	10,700
<b>Total</b>	<u>49,126</u>	<u>9,651</u>	<u>-</u>	<u>58,777</u>

# Notes to the Accounts - *continued*

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## 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:

	<b>Year ended 31 July 2004 £000</b>	Year ended 31 July 2003 £000
Contributions to Universities Superannuation Scheme	<b>9,768</b>	9,103
Contributions to University of Liverpool Pension Fund	<b>3,095</b>	2,155
Contributions to other schemes	<b>886</b>	507
Backdated pension contribution	<b>883</b>	500
	—————	—————
Total Pension Cost (note 9)	<b>14,632</b>	12,265
	—————	—————

### **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/deficit 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.

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 £9,768k (2003 : £9,103k). 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 2004 has been performed by a qualified independent actuary. The major assumptions used by the actuary were (in nominal terms):

	<b>At year-end 31 July 2004 %</b>	At year-end 31 July 2003 %	At year-end 31 July 2002 %
Rate of increase in salaries	<b>5.00</b>	4.50	4.40
Rate of increase in pensions in payment	<b>3.00</b>	2.50	2.40
Revaluation rate for deferred pensioners	<b>3.00</b>	2.50	2.40
Discount rate	<b>5.75</b>	5.25	5.90
Inflation assumption	<b>3.00</b>	2.50	2.40

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

	<b>Long-term rate of return expected at 31 July 2004 %</b>	<b>Fair Value at 31 July 2004 £000</b>	Long-term rate of return expected at 31 July 2003 %	Fair Value at 31 July 2003 £000	Long-term rate of return expected at 31 July 2002 %	Fair Value at 31 July 2002 £000
Equities	<b>8.00</b>	<b>115,807</b>	8.00	107,435	8.00	97,905
Bonds	<b>5.25</b>	<b>23,409</b>	4.75	25,464	5.25	33,151
Cash	<b>4.75</b>	<b>8,759</b>	4.00	5,014	4.00	-
Total market value of assets		<b>147,975</b>		137,913		131,056

Illustrative balance sheet figures:

	<b>At year-end 31 July 2004 £000</b>	At year-end 31 July 2003 £000	At year-end 31 July 2002 £000
Total market value of assets	<b>147,975</b>	137,913	131,056
Actuarial present value of scheme liabilities	<b>(164,333)</b>	(152,257)	(119,509)
(Deficit)/surplus	<b>(16,358)</b>	(14,344)	11,547



## 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 2004 would be as follows:

	<b>31 July 2004</b>	31 July 2003
	<b>£000</b>	£000
Net assets excluding pension liability	<b>302,230</b>	280,448
Pension (liability)	<b>(16,358)</b>	(14,344)
	<hr/>	<hr/>
Net assets including pension liability	<b>285,872</b>	266,104
	<hr/>	<hr/>
Income and expenditure reserves excluding pension (liability)	<b>111,667</b>	100,911
Pension (liability)	<b>(16,358)</b>	(14,344)
	<hr/>	<hr/>
Income and expenditure reserve including pension (liability)	<b>95,309</b>	86,567
	<hr/>	<hr/>

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

	<b>Year to</b>	
	<b>31 July 2004</b>	
	<b>£000</b>	<b>£000</b>
<i>Operating Profit</i>		
Current service cost		<b>5,169</b>
Past service cost		<b>944</b>
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		<b>6,113</b>
<i>Other finance income</i>		
Expected return on pension scheme assets	<b>9,995</b>	
Interest on pension liabilities	<b>(8,069)</b>	
	<hr/>	
Net return		<b>1,926</b>
		<hr/>
Total		<b>4,187</b>
		<hr/>

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

	<b>Year to</b>	Year to
	<b>31 July 2004</b>	31 July 2003
	<b>£000</b>	£000
Actuarial return less expected return on assets	<b>69</b>	(2,425)
Experience gains and losses on liabilities	<b>10,038</b>	1,600
Changes in assumptions underlying the present value	<b>(10,897)</b>	(26,075)
	<hr/>	<hr/>
Actuarial loss	<b>(790)</b>	(26,900)
	<hr/>	<hr/>

# Notes to the Accounts - *continued*

Movement in illustrative balance sheet figures during the year:

	<b>2003-2004</b> <b>£000</b>	2002-2003 £000
(Deficit)/Surplus in scheme at beginning of year	<b>(14,344)</b>	11,547
Movement in year:		
Current service cost	<b>(5,169)</b>	(3,623)
Contributions	<b>2,963</b>	2,155
Past service costs	<b>(944)</b>	-
Net interest/return on assets	<b>1,926</b>	2,477
Actuarial loss	<b>(790)</b>	(26,900)
	<hr/>	<hr/>
(Deficit) in scheme at end of year	<b>(16,358)</b>	(14,344)
	<hr/>	<hr/>

The total pension contribution to ULPF was £2,963k (2003: £2,155k). The contribution rate payable by the University was 11.4% of pensionable salaries.

Experience gains and losses:

	<b>Year to</b> <b>31 July 2004</b> <b>£000</b>	Year to 31 July 2003 £000	Year to 31 July 2002 £000
Difference between expected and actual return on scheme assets:			
amount (£000)	<b>69</b>	(2,425)	(37,654)
percentage of scheme assets	<b>0%</b>	-2%	-29%
Experience gains and losses on scheme liabilities:			
amount (£000)	<b>10,038</b>	1,600	616
percentage of scheme liabilities	<b>6%</b>	1%	1%
Effects of changes in the demographic and financial assumptions underlying the present value of the scheme liabilities:			
amount (£000)	<b>(10,897)</b>	(26,075)	-
- percentage of scheme liabilities	<b>- 7%</b>	-17%	-
Total amount which would be recognised in statement of total recognised gains and losses:			
amount (£000)	<b>(790)</b>	(26,900)	(37,038)
percentage of scheme liabilities	<b>0%</b>	-18%	-31%