

## Reports and Financial Statements (Abstract of Accounts) for the year ended 31 July 2004

### TREASURER'S REPORT

#### *Scope of the Financial Statements*

The consolidated financial statements cover the University's core teaching and research activities and its stewardship of national collections. As in previous years, the statements also include the results of subsidiary companies which undertake activities that for legal or commercial reasons are more appropriately carried out by limited companies.

This year, for the first time, the financial statements also include the activities of the University's Local Examinations Syndicate (UCLES), a constituent part of the corporation. The inclusion of UCLES is an important step in meeting the Council's aim of presenting accounts that are 'true and fair'. The completion of this process, which the Council expect to achieve in 2004–2005, requires the inclusion of Cambridge University Press and certain trusts that support the activities of the University and its students. UCLES' primary work is the conduct and administration of examinations in schools and for persons who are not members of the University. It is a major activity within the University, and its annual report and financial statements are published separately in the Reporter. For UCLES' own purposes, its financial year is to 30 September, but for the purpose of the University's consolidated financial statements, interim accounts to the University's accounting reference date of 31 July were prepared.

The format of the financial statements follows the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions (the SORP).

#### *Changes to accounting treatment*

In addition to the inclusion of UCLES, some other important changes have been made in order to align the financial statements with current accounting practice.

- (i) The presentation of the income and expenditure account has been adjusted to be in accordance with changes to the SORP. Endowment and investment income includes all income receivable by specific endowment funds. To the extent that this income has not been expended in the current year, the balance is transferred to accumulated income within specific endowments.
- (ii) The University is now able to account for its pension costs in relation to the Cambridge University Assistants' Contributory Pension Scheme (CPS) as a defined benefit scheme. The provisions of Financial Reporting Standard 17 (FRS 17) have been adopted in full.
- (iii) The University holds a considerable number of assets of historical, artistic and scientific importance in its museums, libraries and galleries. The accounting treatment of such assets purchased, donated or bequeathed since 1 August 1999 has been changed and they are capitalized in the balance sheet at cost or valuation. No depreciation is charged.

The comparative figures for 2002–03 have been restated to reflect these changes in accounting treatment and the inclusion of UCLES. The changes are explained more fully in the notes to the accounts.

#### **Results for the year**

The results for the year ended 31 July 2004 are summarized as follows:

	2003–04	2002–03	Change
	£m	£m	%
Income	645.9	609.0	+6.1%
Expenditure	(654.8)	(605.5)	+8.1%
(Deficit)/surplus on continuing operations	(8.9)	3.5	
Transfer to accumulated income in specific endowments	(1.6)	(5.6)	
Retained within general reserves	(10.5)	(2.1)	

The results reflect the continuing financial pressures on the University. The deficits of its teaching and research activities have more than offset the favourable impact of surpluses from UCLES' operations.

*Consolidated income* for the University, including UCLES, and its subsidiary companies increased by £36.9m (+6.1%) to £645.9m. UCLES' revenues contributed £12.0m of the increase and £155.0m (almost one quarter) of the total.

*Grant income* from the Higher Education Funding Council for England (HEFCE) and the Teacher Training Agency (TTA) increased by £9.5m (+6.6%) to £154.9m. The core recurrent grant from HEFCE/TTA increased by £9.5m (+7.2%) being mainly further block grant for research, following the University's strong result in the last Research Assessment Exercise. In addition grants given for specific activities increased slightly to £9.6m.

*Academic fees and support grants* showed little change. Income from full-time overseas students continued its steady growth as fees are increased slightly above inflation. Certain income previously included in part-time course fees has been reclassified as Other Income.

*Research grants and contracts income* continued to grow in real terms with an increase of £14.1m (+8.7%) to £176.3m, spread evenly between research councils, UK charities, and other sponsors. Income from industrial sponsors showed strong growth. Sponsored research is an increasing proportion of the University's activity and generated income of 50% greater than just four years ago.

*Examination and assessment services income* of UCLES increased by 8.7% to £150.7m.

*Other income* increased by £7.9m, including a £2.8m gain from sale of certain surplus buildings. Donations fund much of the University's work, with small increases in the year in general donations to £10.5m, and in expenditure funded by specific donations to £7.7m.

*Endowment and investment income* declined by £6.2m to £30.0m primarily because of a reduced dividend paid by the University's main endowment fund (the Amalgamated Fund) and a lower average interest rate over the period.

*Staff costs* overall increased by £20.4m (6.8%) to £320.3m (the UCLES' element included in these figures being £6.9m and £44.5m respectively). Excluding the UCLES' costs and the direct staff costs of research grants and contracts (which are funded directly by research sponsors), overall staff costs increased by 5%. This was principally because of general cost of living reviews and promotions, but with a small growth in staff numbers.

*Other operating expenses* increased by 7.6% to £297.8m. In particular expenditure on building maintenance increased by £6.0m to £22.2m.

*Depreciation* has increased as new buildings, and major improvements are completed.

#### **Capital expenditure programme**

The University continued to invest in its physical assets. There was £88.1m capital expenditure on land and buildings, including the new residences at West Cambridge, new buildings for English, Criminology and Education, construction at the Addenbrooke's site of a new facility for cancer research, and completion of the redevelopment of the Fitzwilliam Museum.

#### **Endowment and investment performance**

Additional endowment capital of £29.9m was received, including £17.2m from the estate of the late Herchel Smith, and £7.4m transferred from the Cambridge University Press being funds designated by the Press to be applied for specific University activities. Taken with the increase in market value of endowment investments, the endowment funds totalled £469.5m at 31 July 2004.

In addition to endowment assets, the University held fixed and current asset investments for its designated or general use totalling £399.5m at the year-end, up from £380.0m in the prior year.

The majority of the University's endowment assets, other long-term assets, and certain of those of associated bodies, are invested in the University's Amalgamated Fund. The objectives of the Fund are to produce (i) future growth of income at a rate at least equal to the rise in University factor costs, and (ii) the maximum total return which is consistent with this objective and with an acceptable risk exposure. The Fund's securities portfolio is managed by F&C Management Limited, and its property portfolio by LaSalle Investment Management Limited. The University's short-term deposit pool is managed by Barclays Global Investors and directly by the University.

The capital value of a unit of the Amalgamated Fund increased by 4.23% to £26.01 over the 12 months to 31 July 2004. A distribution of 104.0 pence per unit (2003: 130.0 pence) was made in the year, equivalent to a yield of 4.2% on the opening value. The distribution was limited to retained income as required by the University Statutes. The Council have proposed that changes are made to the Statutes to allow the Fund to make smoother distributions for expenditure based on the total return of the Fund, which will avoid large year-on-year fluctuations in future.

Turning to performance of the underlying assets of the Amalgamated Fund, over the twelve months to June 2004 the securities portfolio gave a return of 12.1%, slightly behind the WM Charities Universe and FTSE World indices of 12.7% and 13.5% respectively. The portfolio had been underweight in UK equities and overweight in bonds over the period, leading to the relative under-performance. The property portfolio is measured on a calendar year basis and over 2003 produced a total return of 12.1%, once again outperforming the IPD Index benchmark.

#### **Pensions**

The two principal pension schemes for the University staff are the Universities Superannuation Scheme (USS) and the Cambridge University Assistants' Contributory Pension Scheme (CPS). In common with many final salary schemes in the UK, the CPS has moved from a comfortable surplus to a deficit. A full actuarial valuation as at 31 July 2003 showed a deficit for past service of £17.6m. Much of the change was due to the reduction in investment returns, experienced by almost all pension schemes during recent years, and the fact that contribution rates to the scheme had been held at a low level during recent years. A lump-sum payment to the CPS of £12.1m was made in the year, and the total joint contribution rate increased to 22.5% with effect from August 2004, which has added a significant recurrent cost.

Now that UCLES has been included in the University's financial statements it is possible to account for the pension costs in relation to CPS as a defined benefit scheme. In these financial statements the pension costs have been accounted for by following FRS 17 – Accounting for Retirement Benefits. FRS 17 requires that the values of pension scheme assets are stated at actual market values at the balance sheet date, and that the discount rate applied in the valuation of liabilities is based on yield available on corporate bonds at that date rather than one based on the

long-term expected return on the scheme's assets. Thus the FRS 17 valuation is a snapshot at the valuation date, and surpluses or deficits may fluctuate significantly from year to year. The deficit of the CPS on these FRS 17 assumptions is £70.6m as at 31 July 2004, which is recorded within the total pension liability in the balance sheet. The latest full valuation of the CPS was carried out as at 31 July 2003 on long-term assumptions and showed a £17.6m deficit.

The USS is a multi-employer scheme and under FRS 17 the University's participation is accounted on the basis of contributions made. The trustee of the USS assessed, on an approximate basis, the ongoing funding level of the USS at some 79% at 31 March 2004. The pension schemes are considered in detail in Note 28 to the accounts.

### **Conclusion**

The inclusion of UCLES in these financial statements has given a more complete picture of the University's activities, but has perhaps added to the complexity in the presentation of the results of the University's core academic activities. Note 10 to the Accounts gives a segmental analysis. The deficit on academic activities for the year, taken with extra pension costs, was much in line with budget projections but was not covered by the satisfactory surpluses that UCLES is making at present. The overall deficit of £10.5m is of great concern to the Council, although it remains a small percentage of total income. Additional pension costs have hit the University hard and the position will require considerable management effort to redress.

The introduction of variable fees would add significantly to income, although it is uncertain what proportion of this income will be needed to support the University's ongoing efforts to widen access. The introduction of full economic costing of sponsored research will, it is hoped, lead to improved pricing of our activities. The University's institutions have been given a testing task of making up deficits through local actions. These and other initiatives will help control and progressively reduce the deficit.

Against this there is the continuing need to invest in and maintain the University's physical and administrative infrastructure, to ensure that salaries are competitive in national and global markets, to accommodate ongoing pressures on pension costs, and to develop new initiatives in preparing for the future.

The University has made significant advances in putting in place the mechanisms for sound financial management. Improved planning procedures and the delegation of financial decision-making and financial incentives to School and Departmental level have led to a clearer understanding of direct costs, indirect costs and subsidies.

The state of world stockmarkets appears to have steadied although there is no expectation of the dramatic gains seen over the last decade. The University benefits from its endowment income which, although small in comparison to our international peers, helps maintain the quality of our teaching and research. We will be seeking to grow our endowment significantly in the coming years.

Professor Tony Minson  
*Acting Treasurer*

## CORPORATE GOVERNANCE

1. The following Statement is provided by the Council to enable readers of the Financial Statements to obtain a better understanding of the arrangements in the University for the management of its resources and for audit.
2. The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty, and leadership) and within the general principles of the Guidance to Universities which has been provided by the Committee of University Chairmen and its Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland.
3. Under the Statutes the Governing Body of the University is the Regent House which comprises the resident senior members of the University and the Colleges, together with the Chancellor, the High Steward, the Deputy High Steward, and the Commissary. Subject to the Regent House, the Council of the University are the principal executive and policy-making body of the University, with general responsibility for the administration of the University, for the planning of its work, and for the management of its resources. The General Board of the Faculties are responsible, subject to the Regent House and to the responsibilities of the Council, for the academic and educational policy of the University.
4. The Council are advised in carrying out their duties by a number of Committees, including the Planning and Resources Committee, the Finance Committee, the Audit Committee and the Risk Steering Committee. The Planning and Resources Committee is a joint committee of the Council and the General Board. Its responsibilities include the development and oversight of the University's Strategic Plan, and the preparation of the University's budget. The Finance Committee is chaired by the Vice-Chancellor and advises the Council on the management of the University's assets, including real property, monies and securities, and on the care and maintenance of all University sites and buildings. The Audit Committee governs the work of the Internal and External Auditors, reporting on these matters directly to the Council. The Risk Steering Committee is responsible to the Council for the identification of the major corporate risks and their management.
5. The Vice-Chancellor is, *de facto*, the principal academic and administrative officer of the University. Under the terms of the Financial Memorandum between the University and the Higher Education Funding Council for England the Vice-Chancellor is the Designated Officer of the University.
6. Under Statutes, it is the duty of the Council, acting on the advice of the Finance Committee, to exercise general supervision over the finances of all institutions in the University other than the University Press; to keep under review the University's financial position and to make a report thereon to the University at least once in each year; to recommend bankers for appointment by the Regent House; to prepare and publish an abstract of the annual accounts of the University, excluding the accounts of the University Press and of such other accounts as may be specified by Ordinance.
7. It is the duty of the Audit Committee to keep under review the effectiveness of the University's internal systems of financial and other controls; to advise the Council on the appointment of external and internal auditors; to consider reports submitted by the auditors, both external and internal; to monitor the implementation of recommendations made by the internal auditors; to satisfy themselves that satisfactory arrangements are adopted throughout the University for promoting economy, efficiency and effectiveness; to establish appropriate performance measures and to monitor the effectiveness of external and internal audit; to make an annual report to the Council, the Vice-Chancellor and the Higher Education Funding Council for England; to receive reports from the National Audit Office and the Higher Education Funding Council for England. The Registry is Secretary to the Audit Committee. Membership of the Audit Committee includes four external members, appointed by the Council with regard to their professional expertise and experience in comparable roles in corporate life. The Statutes have been amended to provide for the inclusion of two external members on the Council, one of whom will chair the Audit Committee.
8. The University maintains a Register of Interests of Members of the Council, the General Board, the Finance Committee and the Audit Committee, and of the Senior Administrative Officers, which may be consulted by arrangement with the Registry.
9. The Cambridge University Press is established by Statute of the University and has its own charitable status separate from that of the University. It is an educational charitable enterprise dedicated to printing and publishing in the advancement of knowledge, education, and learning. The University publishes separately an annual report and accounts for the Press. The University of Cambridge Local Examinations Syndicate is established under the Statutes of the University as a charitable enterprise whose primary work is the conduct and administration of examinations in schools and for persons who are not members of the University. Its accounts are included in the University's consolidated financial statements; the annual report and accounts for the Syndicate are also available separately.

## STATEMENT OF INTERNAL CONTROL

1. The Council have 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 we are responsible, in accordance with the Statutes and Ordinances and the Financial Memorandum with the HEFCE.

2. 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.

3. 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 was in place as at 31 July 2004 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

4. The Council have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- (a) The Council meet ten times throughout the year to consider the plans and strategic direction of the University.
- (b) The Council receive periodic reports from the Chairman of the Audit Committee concerning internal control and receive the minutes of all meetings of the Audit Committee.
- (c) The Council have established a Risk Steering Committee to oversee risk management. The Council receive periodic reports from the Chairman of the Risk Steering Committee and receive the minutes of all meetings of the Risk Steering Committee. Risk management is a standing item on the agenda for meetings of the Council.
- (d) The Audit Committee receives regular reports from the internal auditors, which include the internal auditors' independent opinion on the adequacy and effectiveness of the University's system of internal control and risk management, together with recommendations for improvement.
- (e) A programme of risk management and awareness courses commenced in 2003 and is continuing.
- (f) A system of risk indicators has been developed for the University's key risks.
- (g) A robust risk prioritization methodology based on risk ranking and cost-benefit analysis has been established.
- (h) A University-wide risk register is maintained. Key risks have been assigned to risk owners and risk reporting channels established.

5. The Council's review of the effectiveness of the system of internal control is informed by the work of the internal auditors RSM Robson Rhodes. They operate to the standards defined in the HEFCE Audit Code of Practice.

6. The Council's review of the effectiveness of the system of internal control is also informed by the work of the senior officers and the risk owners within the University, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

## STATEMENT OF RESPONSIBILITIES OF THE COUNCIL

1. Under the University's Statutes it is the duty of the Council, acting on the advice of its Finance Committee, to prepare, and to publish an abstract of, the annual accounts of the University, excluding the accounts of the University Press, and of such other accounts as may be specified by Ordinance.

2. The Council are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University.

3. In preparing the financial statements the Council are required to:

- (a) select suitable accounting policies and then apply them consistently;
- (b) make judgements and estimates that are reasonable and prudent;
- (c) state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- (d) prepare the financial statements on a going concern basis unless it is inappropriate to presume that the University will continue to operate;
- (e) ensure that income has been applied in accordance with the University's Statutes and Ordinances, and its Financial Memorandum with the HEFCE and the funding Agreement with the Teacher Training Agency, and;
- (f) safeguard the assets of the University and take reasonable steps to prevent and detect fraud and other irregularities.

## **INDEPENDENT AUDITORS' REPORT TO THE COUNCIL**

We have audited the financial statements of the University of Cambridge for the year ended 31 July 2004 which comprise the consolidated income and expenditure account, the balance sheets, the consolidated cash flow statement, the statement of total recognised gains and losses, the statement of principal accounting policies and the related notes 1 to 33. These financial statements have been prepared under the accounting policies set out in the Statement of Principal Accounting Policies.

This report is made solely to the Council, as a body, in accordance with the University's financial memoranda effective from 1 August 2000 to 30 September 2003 and from 1 October 2003 with the Higher Education Funding Council for England. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the Council as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective Responsibilities of the Council and independent auditors**

The responsibilities of the Council under the University Statutes with respect to the preparation of financial statements are set out in the Statement of Responsibilities of the Council. In fulfilling those responsibilities, the Council has determined what shall be included in the financial statements of the University and of the Group, which do not include Cambridge University Press, a constituent part of the corporation, or associated trusts as stated in the Statement of Principal Accounting Policies.

Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements, United Kingdom auditing standards and the requirements of the Audit Code of Practice issued by the Higher Education Funding Council for England.

We report to you our opinion as to whether the financial statements are properly prepared in accordance with the accounting policies set out in the Statement of Principal Accounting Policies and with the University's Statutes and Ordinances. We also report to you whether, in all material respects, income from the Higher Education Funding Council for England and from the Teacher Training Agency and grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received, and whether, in all material respects, income has been applied in accordance with the University's Statutes and Ordinances and where appropriate with the Financial Memoranda effective from 1 August 2000 to 30 September 2003 and from 1 October 2003 with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

We also report to you if, in our opinion, the 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 that we require for our audit.

We read the other information contained in the Treasurer's Report, the Corporate Governance Statement, the Statement of Internal Control and the Statement of Responsibilities of the Council and consider the implications for our report if we become aware of any apparent misstatements within them.

### **Basis of Audit Opinion**

We conducted our audit in accordance with United Kingdom auditing standards 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 Council in the preparation of the financial statements, and of whether the accounting policies selected by the Council are appropriate to the circumstances of the University and the group, 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.

### **Basis of preparation of the financial statements**

In forming our opinion, we have considered the appropriateness of the accounting policies adopted by the Council, which are disclosed in the Statement of Principal Accounting Policies. In fulfillment of its responsibility under the University Statutes to prepare and to publish an abstract of the annual accounts of the University, excluding the accounts of Cambridge University Press, the Council has drawn up financial statements showing the state of affairs and deficit of the University's and group's activities, excluding those of Cambridge University Press. The Council has adopted accounting policies, as required by the Statutes or which the Council has determined appropriate. These policies do not permit the financial statements to comply with applicable United Kingdom accounting standards, in that the entities set out in the basis of preparation note which forms part of the Statement of Principal Accounting Policies have not been included. Our engagement requires us to report only on whether the financial statements comply with the accounting policies determined by the Council of the University and disclosed therein.

### **Opinion**

In our opinion:

- (i) the financial statements have been properly prepared in accordance with the accounting policies set out in the Statement of Principal Accounting Policies and with the University's Statutes and Ordinances;
- (ii) in all material respects, income from the Higher Education Funding Council for England and from the

Teacher Training Agency and grants and income for specific purposes and from other restricted funds administered by the University have been applied for the purposes for which they were received; and

(iii) in all material respects, income has been applied in accordance with the University's Statutes and Ordinances and where appropriate with the Financial Memoranda effective from 1 August 2000 to 30 September 2003 and from 1 October 2003 with the Higher Education Funding Council for England and with the Funding Agreement with the Teacher Training Agency.

Deloitte & Touche LLP  
*Chartered Accountants and Registered Auditors*  
Cambridge  
13 December 2004

## STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

### **Basis of preparation**

As noted below the consolidated financial statements do not include the accounts of Cambridge University Press (CUP), nor those of the Cambridge Commonwealth Trust, the Cambridge Overseas Trust, the Cambridge European Trust and the Gates Cambridge Trust and certain other trusts supporting the activities of the University by providing scholarships and otherwise (the Associated Trusts). Transactions with these entities are disclosed in the notes to the accounts. Insofar as these activities are excluded, the financial statements do not disclose all assets and liabilities of the corporation known as the University of Cambridge, do not include all income and expenditure of that corporation and do not comply with certain United Kingdom accounting standards and as such, do not comply with the Statement of Recommended Practice Accounting for Further and Higher Education (the SORP). In other respects the financial statements have been prepared in accordance with applicable United Kingdom accounting standards and the SORP.

These financial statements include for the first time the income and expenditure, assets and liabilities of the Local Examinations Syndicate (UCLES), a constituent part of the University, of subsidiary undertakings forming part of the operational group headed by UCLES, and of The Cambridge Foundation. The effect of this change in the basis of preparation is explained further in note 11.

The Council is currently undertaking a review of the basis of preparation in respect of entities not currently included.

### **Basis of accounting**

The financial statements have been prepared under the historical cost convention, modified in respect of the treatment of investments and certain operational properties which are included at valuation.

### **Exclusion of Cambridge University Press and the Associated Trusts**

The financial statements exclude the accounts of CUP, a constituent part of the corporation known as the University of Cambridge. Transactions with CUP are treated in the financial statements as transactions with a related third party.

The consolidated financial statements do not include the accounts of the Associated Trusts, each of which is a separately constituted charity. Transactions with the Associated Trusts are treated in the financial statements as transactions with related third parties.

### **Basis of consolidation**

Except for the exclusion of CUP and the Associated Trusts as noted above, the consolidated financial statements include the University and its subsidiary undertakings. Details of the subsidiary undertakings included are given in note 29. Intra-group transactions and balances are eliminated on consolidation.

The consolidated financial statements do not include the accounts of the 30 Colleges and one Approved Society in the University ("the Colleges"), each of which is an independent corporation. Transactions with the Colleges are disclosed in note 31.

The consolidated financial statements do not include the accounts of Cambridge University Students Union or of the Cambridge University Graduate Union, as these are separate bodies in which the University has no financial interest and over whose policy decisions it has no control.

### **Recognition of income**

#### *Recurrent grant*

Recurrent grant is received from the Higher Education Funding Council for England (HEFCE) and the Teacher Training Agency. Recurrent grant is recognised as income in the period to which it relates.

#### *Restricted income*

Income is received which is designated for restricted purposes as specified by grantors or donors, including HEFCE specific grants, research grants and specific donations. Except for income in respect of specific endowments, restricted income is recognised to the extent that relevant expenditure has been incurred, and unspent restricted income is included in creditors.

#### *Capital grants and donations*

Grants and external donations are received for the purposes of funding the acquisition and construction of tangible fixed assets. These are credited to deferred capital grants when the related capital expenditure is incurred and released to income over the expected useful life of the respective assets consistent with the depreciation policy.

#### *Academic fees*

Tuition fees for degree courses are charged to students by academic term. Income is recognised for academic terms falling within the period. For short courses, fees are charged in advance for the entire course and income is recognised to the extent that the course duration falls within the period.

#### *Examination and assessment services*

Income from assessment is recognised when the assessment service has been substantially rendered. Where assessment includes ongoing verification, judgement is used to establish the proportion of income that may be

recognised in the period, based upon services performed within the period as a proportion of the total services to be performed.

#### *Other income*

Income is received from a range of activities including catering, conferences, room hire and other services rendered. Income is recognised on the exchange of the relevant goods or services.

#### *Endowment and investment income*

All investment income is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

#### *Specific endowments*

Permanent endowments are not included in the income and expenditure account but are credited to specific endowments when funds are received.

#### **Foreign currency translation**

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. Translation differences are taken to the income and expenditure account.

#### **Tangible fixed assets:**

##### *Land and buildings*

Operational land and buildings are included in the financial statements at their 1994 valuation with subsequent additions at cost. No depreciation is provided on freehold land or on assets in construction. Freehold buildings are written off over their estimated useful lives, which are between 15 and 50 years, and leasehold properties are written off over the length of the lease.

##### *Equipment and books*

Equipment costing less than £10,000 per individual item is written off in the year of purchase. All other equipment is capitalised and depreciated so that it is written off over four years, except where it is purchased from a research grant when it is written off over the remaining life of the grant. Expenditure on books and similar items is charged to revenue as incurred.

##### *Heritage assets*

The University holds and conserves a number of collections, exhibits, artefacts and other assets of historical, artistic or scientific importance. In accordance with FRS 15, all acquisitions since 1 August 1999 have been capitalised at cost or, in the case of donated assets, at valuation on receipt. In line with the general fixed assets accounting policy, the threshold for capitalising assets is £10,000. Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material. In previous years expenditure on heritage assets was written off as incurred.

#### **Intangible fixed assets: goodwill**

Goodwill arises on consolidation and is based on the fair value of the consideration given for the subsidiary and the fair value of its assets at the date of acquisition. Goodwill is amortised over 10 years on a straight line basis, being its estimated useful economic life. Where there is a permanent diminution in the carrying value of goodwill, the loss is included in the results of the period.

#### **Investments**

Fixed asset investments, endowment asset investments and current asset investments are included in the balance sheet at market value. Properties held for investment purposes are valued annually on the basis of estimated open market values on an existing use basis by LaSalle Investment Management. Marketable securities are valued at mid-market valuation on 31 July. Non-marketable securities, including investments in spin-out companies, are included at valuation by the Treasurer.

#### **Historical cost surpluses and deficits**

Differences arise between the surplus or deficit on continuing operations as reported in the consolidated income and expenditure account and its historical cost equivalent. Depreciation is charged on pre 1994 buildings based on their valuation at that date; the effect cannot be quantified as the historical cost of buildings is unavailable. Fixed asset investments are included in the balance sheet at market value and increases or decreases are taken directly to general reserves. Realised gains or losses within the total increase or decrease in value of investments are not separately calculated. Accordingly no consolidated statement of historical cost surpluses and deficits is presented.

#### **Stocks**

Stocks of goods held for resale are stated at the lower of cost and net realisable value. Expenditure on consumable materials for use in teaching and research activities is charged to revenue as incurred.

**Pension costs**

The University contributes to a number of defined benefit pension schemes and accounts for the costs in relation to these schemes in accordance with FRS 17 (Retirement benefits), which has been adopted in advance of its effective date.

Where the University is unable to identify its share of the underlying assets and liabilities in a scheme on a reasonable and consistent basis, it accounts as if the scheme were a defined contribution scheme, so that the cost is equal to the total of contributions payable in the year.

For other defined benefit schemes, the assets of each scheme are measured at fair value, and the liabilities are measured on an actuarial basis using the projected unit method and discounted at an appropriate rate of return. The University's share of the surplus or deficit of the scheme is recognised as an asset or liability on the balance sheet. The current service cost, being the actuarially determined present value of the pension benefits earned by employees in the current period, and the past service cost are included within staff costs. Endowment and investment income includes the net of the expected return on assets, being the actuarial forecast of total return on the assets of the scheme, and the interest cost being the notional interest cost arising from unwinding the discount on the scheme liabilities. All changes in the pension surplus or deficit due to changes in actuarial assumptions or differences between actuarial forecasts and the actual out-turn are reported in the statement of total recognised gains and losses.

**CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT  
FOR THE YEAR ENDED 31 JULY 2004**

		<b>Year ended 31 July 2004</b>	Year ended 31 July 2003 <i>Restated</i>
	<i>Note</i>	<b>£m</b>	£m
<b>Income</b>			
Funding Council and Teacher Training Agency grants	1	<b>154.9</b>	145.4
Academic fees and support grants	2	<b>57.3</b>	57.7
Research grants and contracts	3	<b>176.3</b>	162.2
Examination and assessment services	4	<b>150.7</b>	138.7
Other income	5	<b>76.7</b>	68.8
Endowment and investment income	6	<b>30.0</b>	36.2
<b>Total income</b>		<b>645.9</b>	609.0
<b>Expenditure</b>			
Staff costs	7, 8	<b>320.3</b>	299.9
Other operating expenses	8	<b>297.8</b>	276.7
Depreciation	8	<b>36.7</b>	28.9
<b>Total expenditure</b>	8	<b>654.8</b>	605.5
<b>(Deficit) / surplus on continuing operations</b>	9, 10	<b>(8.9)</b>	3.5
<b>Transfer to accumulated income within specific endowments</b>	22	<b>(1.6)</b>	(5.6)
<b>Deficit for the year retained within general reserves</b>		<b>(10.5)</b>	(2.1)

The income and expenditure account is in respect of continuing activities.

No consolidated statement of historical cost surpluses and deficits is presented as explained in the statement of principal accounting policies.

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

	<i>Note</i>	<b>Year ended 31 July 2004</b>	<b>Year ended 31 July 2003 <i>Restated</i></b>
		<b>£m</b>	<b>£m</b>
(Deficit) / surplus on income and expenditure account		<b>(8.9)</b>	3.5
Increase / (decrease) in market value of investments			
Endowments	22	<b>16.6</b>	1.9
Reserves	23	<b>9.6</b>	(1.2)
New endowment capital	22	<b>29.9</b>	31.8
Actuarial loss on defined benefit pension schemes	20	<b>(17.1)</b>	(11.3)
Total recognised gains and (losses) relating to the year		<b>30.1</b>	24.7
 <b>Reconciliation</b>			
Opening reserves and endowments as previously stated		<b>1,022.9</b>	
Prior year adjustments:			
Endowments	11, 22	<b>8.0</b>	
Reserves	11, 23	<b>76.2</b>	
		<b>1,107.1</b>	
Total recognised gains and (losses) relating to the year		<b>30.1</b>	
Closing reserves and endowments		<b>1,137.2</b>	

**BALANCE SHEETS AS AT 31 JULY 2004**

	<b>Group 31 July 2004</b>	<b>Group 31 July 2003 Restated</b>	<b>University 31 July 2004</b>	<b>University 31 July 2003 Restated</b>
	<i>Note</i>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Fixed assets</b>				
Tangible assets	12	<b>779.4</b>	706.1	<b>776.9</b>
Intangible assets: goodwill	13	<b>2.1</b>	2.7	—
Investments	14	<b>196.3</b>	177.6	<b>209.3</b>
		<hr/>	<hr/>	<hr/>
		<b>977.8</b>	886.4	<b>986.2</b>
<b>Endowment asset investments</b>	15	<b>469.5</b>	421.4	<b>467.4</b>
<b>Current assets</b>				
Stocks		<b>1.4</b>	1.6	<b>0.7</b>
Debtors	16	<b>107.9</b>	132.5	<b>113.3</b>
Investments				
University	17	<b>203.2</b>	202.4	<b>164.0</b>
Held on behalf of others	17	<b>71.5</b>	82.4	<b>112.8</b>
Cash at bank and in hand		<b>3.6</b>	4.3	<b>1.4</b>
		<hr/>	<hr/>	<hr/>
		<b>387.6</b>	423.2	<b>392.2</b>
<b>Creditors: amounts falling due within one year</b>	18	<b>(269.8)</b>	(258.2)	<b>(289.0)</b>
<b>Net current assets</b>		<b>117.8</b>	165.0	<b>103.2</b>
<b>Total assets less current liabilities</b>		<b>1,565.1</b>	1,472.8	<b>1,556.8</b>
<b>Creditors: amounts falling due after more than one year</b>	19	—	—	<b>(10.6)</b>
<b>Pension liability</b>	20	<b>(72.8)</b>	(56.6)	—
<b>Total net assets</b>		<b>1,492.3</b>	1,416.2	<b>1,546.2</b>
<b>Represented by:</b>				
<b>Deferred capital grants</b>	21	<b>355.1</b>	309.1	<b>355.1</b>
<b>Endowments</b>				
Specific endowments	22	<b>463.5</b>	415.7	<b>461.4</b>
General endowments	22	<b>6.0</b>	5.7	<b>6.0</b>
		<hr/>	<hr/>	<hr/>
	22	<b>469.5</b>	421.4	<b>467.4</b>
<b>Reserves</b>				
General reserves	23	<b>461.4</b>	472.2	<b>517.4</b>
Revaluation reserve	23	<b>206.3</b>	213.5	<b>206.3</b>
		<hr/>	<hr/>	<hr/>
	23	<b>667.7</b>	685.7	<b>723.7</b>
<b>Total funds</b>		<b>1,492.3</b>	1,416.2	<b>1,546.2</b>
		<hr/>	<hr/>	<hr/>

The financial statements on pages 322 to 345 were approved by the Council on 13 December 2004 and signed on its behalf by:

Professor ALISON RICHARD  
*Vice-Chancellor*

Professor TONY MINSON  
*Acting Treasurer*

**CONSOLIDATED CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 JULY 2004**

		<b>Year ended 31 July 2004</b>	Year ended 31 July 2003 <i>Restated</i>
	<i>Note</i>	<b>£m</b>	£m
Net cash inflow / (outflow) from operating activities	24	<b>1.0</b>	(20.8)
Returns on investments:			
Interest and dividends received on investments		<b>29.3</b>	36.2
Capital expenditure and financial investment	25	<b>(15.9)</b>	(7.1)
Cash inflow before use of liquid resources		<b>14.4</b>	8.3
Management of liquid resources:			
Increase in short-term deposits		<b>(14.2)</b>	(6.6)
Increase in cash in the year		<b>0.2</b>	1.7

**Reconciliation of net cash flow to movement in net funds**

Increase in cash		<b>0.2</b>	1.7
Cash outflow from liquid resources		<b>14.2</b>	6.6
Movement in net funds in the year		<b>14.4</b>	8.3
Net funds at 1 August		<b>212.3</b>	204.0
Net funds at 31 July	26	<b>226.7</b>	212.3

## NOTES TO THE ACCOUNTS

	2004 £m	2003 £m
<b>1 Funding Council and Teacher Training Agency grants</b>		
<b>Higher Education Funding Council for England (HEFCE)</b>		
Recurrent grant	136.7	128.0
Specific grants	9.6	9.1
Deferred capital grant released in year (note 21)		
Equipment	3.0	3.1
Buildings	1.7	2.1
	<hr/>	<hr/>
<b>HEFCE total</b>	<b>151.0</b>	142.3
<b>Teacher Training Agency</b>		
Recurrent grant	3.9	3.1
	<hr/>	<hr/>
<b>154.9</b>	<b>145.4</b>	<hr/>
<b>2 Academic fees and support grants</b>		
Full-time home students	20.3	19.8
Full-time overseas students	24.6	22.6
Part-time course fees	11.0	13.6
Research Training Support Grants	1.4	1.7
	<hr/>	<hr/>
<b>57.3</b>	<b>57.7</b>	<hr/>
<b>3 Income: research grants and contracts</b>		
Research councils	66.4	62.0
UK based charities	52.3	49.0
Other bodies	57.6	51.2
	<hr/>	<hr/>
<b>176.3</b>	<b>162.2</b>	<hr/>
<b>4 Examination and assessment services</b>		
Examination fees	138.5	127.8
Other examination and assessment services	12.2	10.9
	<hr/>	<hr/>
<b>150.7</b>	<b>138.7</b>	<hr/>
<b>5 Other income</b>		<i>Restated</i>
Other services rendered	21.5	15.6
Health and hospital authorities	9.1	8.0
Catering	4.5	2.8
AHRB museum grant	1.4	1.5
University companies	6.8	5.1
Released from deferred capital grants (note 21)	4.9	3.9
General donations	10.5	9.5
Specific donations released in the year	7.7	7.1
Surplus on disposal of tangible fixed assets	2.8	–
Value Added Tax rebate	–	2.5
Rental income (including room hire)	4.0	3.7
Sundry income	3.5	9.1
	<hr/>	<hr/>
<b>76.7</b>	<b>68.8</b>	<hr/>

Certain items previously reported have been reclassified to provide greater comparability.

**NOTES TO THE ACCOUNTS (continued)**

	2004 £m	2003 £m	
<b>6 Endowment and investment income</b>			<i>Restated</i>
Income from specific endowment asset investments	<b>17.1</b>	20.0	
Income from general endowment asset investments	<b>0.2</b>	0.3	
Other income credited to specific endowments	<b>1.1</b>	3.9	
Other investment income	<b>11.6</b>	12.0	
	<b>30.0</b>	36.2	

	2004 £m	2003 £m	
<b>7 Staff costs</b>			<i>Restated</i>
Wages and salaries	<b>261.8</b>	246.2	
Social security costs	<b>22.3</b>	19.5	
Pension costs (note 28)	<b>36.2</b>	34.2	
	<b>320.3</b>	299.9	

	2004 £000	2003 £000
<b>Emoluments of the Vice-Chancellor</b>		
Emoluments excluding employer's pension contributions	<b>23</b>	137
Previous Vice-Chancellor (to 30 September 2003)	<b>157</b>	—
Current Vice-Chancellor (from 1 October 2003)	<b>180</b>	137
Employer's pension contributions	<b>3</b>	19
	<b>183</b>	156

The University's pension contributions to USS in respect of the previous Vice-Chancellor were paid at the same rates as for other academic staff. No pension contributions were paid in respect of the current Vice-Chancellor.

<b>Compensation for loss of office to higher paid staff</b>		
Termination payments	—	404
Payment to USS for enhanced pension benefits	—	317
	—	721

**Remuneration of higher paid staff, excluding employer's pension contributions:**

	<b>Clinical</b>		<b>Non-Clinical</b>		<b>Total number</b>	
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>
		<i>Restated</i>		<i>Restated</i>		<i>Restated</i>
£70,000–£80,000	<b>36</b>	40	<b>47</b>	27	<b>83</b>	67
£80,001–£90,000	<b>16</b>	15	<b>11</b>	8	<b>27</b>	23
£90,001–£100,000	7	3	<b>11</b>	6	<b>18</b>	9
£100,001–£110,000	<b>17</b>	13	<b>3</b>	3	<b>20</b>	16
£110,001–£120,000	<b>3</b>	1	—	—	<b>3</b>	1
£120,001–£130,000	<b>9</b>	13	<b>2</b>	2	<b>11</b>	15
£130,001–£140,000	<b>2</b>	6	<b>1</b>	1	<b>3</b>	7
£140,001–£150,000	<b>3</b>	4	—	—	<b>3</b>	4
£150,001–£160,000	<b>8</b>	3	—	2	<b>8</b>	5
£160,001–£170,000	—	—	<b>1</b>	—	<b>1</b>	—
£170,001–£180,000	<b>3</b>	—	<b>1</b>	—	<b>4</b>	—
£180,001–£190,000	<b>2</b>	—	<b>1</b>	—	<b>3</b>	—

The above statistics include additional payments to employees of the University on behalf of NHS bodies.

**NOTES TO THE ACCOUNTS (continued)****8 Analysis of expenditure by activity**

	<b>Staff costs £m</b>	<b>Other operating expenses £m</b>	<b>Depreciation £m</b>	<b>2004 Total £m</b>	<b>2003 Restated £m</b>
Academic departments	<b>127.8</b>	<b>28.8</b>	<b>5.6</b>	<b>162.2</b>	157.2
Academic services	<b>14.3</b>	<b>8.8</b>	<b>0.8</b>	<b>23.9</b>	23.1
Payments to colleges (see note 31)	—	<b>30.1</b>	—	<b>30.1</b>	30.1
Research grants and contracts	<b>83.1</b>	<b>62.6</b>	<b>7.3</b>	<b>153.0</b>	141.8
Other activities:					
Examinations and assessment services	<b>44.1</b>	<b>91.6</b>	<b>1.7</b>	<b>137.4</b>	123.2
Other services rendered	<b>7.6</b>	<b>12.2</b>	<b>0.1</b>	<b>19.9</b>	15.0
University companies	<b>1.1</b>	<b>4.4</b>	—	<b>5.5</b>	4.6
Catering	<b>1.5</b>	<b>5.2</b>	<b>0.1</b>	<b>6.8</b>	5.2
Other activities total	<b>54.3</b>	<b>113.4</b>	<b>1.9</b>	<b>169.6</b>	148.0
Administration and central services:					
Administration	<b>17.6</b>	<b>7.6</b>	<b>0.2</b>	<b>25.4</b>	23.4
General educational	<b>1.4</b>	<b>13.6</b>	—	<b>15.0</b>	14.0
Staff and student facilities	<b>2.3</b>	<b>0.4</b>	—	<b>2.7</b>	2.5
Development office	<b>1.5</b>	<b>2.2</b>	—	<b>3.7</b>	3.4
Other	<b>9.3</b>	—	—	<b>9.3</b>	14.8
Administration and central services total	<b>32.1</b>	<b>23.8</b>	<b>0.2</b>	<b>56.1</b>	58.1
Premises	<b>8.7</b>	<b>30.3</b>	<b>20.9</b>	<b>59.9</b>	47.2
Total per income and expenditure account	<b>320.3</b>	<b>297.8</b>	<b>36.7</b>	<b>654.8</b>	605.5

The depreciation charge has been funded by:

Deferred capital grants (note 21)	<b>16.9</b>
Revaluation reserve (note 23)	<b>7.2</b>
General income	<b>12.6</b>
	—
	<b>36.7</b>

<b>Auditors' remuneration</b>	<b>2004 £000</b>	<b>2003 £000</b>	<i>Restated</i>
Other operating expenses include:			
Audit fees payable to the University's external auditors	<b>163</b>	124	
Audit fees payable to the University's external auditors: adjustment to fee for the previous year	—	43	
Other fees payable to the University's external auditors	<b>19</b>	12	
Audit fees payable to other firms	<b>82</b>	92	

These amounts include related irrecoverable VAT.

<b>9 (Deficit) / surplus on continuing operations for the year</b>	<b>2004 £m</b>	<b>2003 £m</b>	<i>Restated</i>
The (deficit) / surplus on continuing operations for the year is made up as follows:			
University's (deficit) / surplus for the year	<b>(13.8)</b>	6.9	
Surplus generated by subsidiary undertakings and transferred to the University under gift aid	<b>2.9</b>	2.1	
(Deficit) / surplus dealt with in the accounts of the University	<b>(10.9)</b>	9.0	
Group level adjustments re defined benefit schemes	<b>0.9</b>	(11.3)	
Surplus retained in subsidiary undertakings	<b>1.1</b>	5.8	
	<b>(8.9)</b>	3.5	

## NOTES TO THE ACCOUNTS (continued)

### 10 Segmental reporting

The group consisting of the University and its subsidiary undertakings has two principal classes of activity: academic activity, which includes teaching and research; and the provision by UCLES and certain subsidiary companies of examination and assessment services.

	Academic 2004 £m	UCLES 2004 £m	Group 2004 £m	Academic 2003 £m	UCLES 2003 £m	Group 2003 £m
<b>Total income</b>						
Segment total income	<b>494.6</b>	<b>155.0</b>	<b>649.6</b>	470.3	143.0	613.3
Inter-segment income	(4.4)	–	(4.4)	(4.3)	–	(4.3)
Income from third parties	<b>490.2</b>	<b>155.0</b>	<b>645.2</b>	466.0	143.0	609.0
Unallocated income re CPS (see note 20)				<b>0.7</b>		–
Total income				<b>645.9</b>		<b>609.0</b>
<b>(Deficit) / surplus on continuing operations</b>						
Segment (deficit) / surplus	<b>(15.0)</b>	<b>5.4</b>	<b>(9.6)</b>	3.2	11.5	14.7
Unallocated net gain / (loss) re CPS (see note 20)				<b>0.7</b>		(11.2)
Group (deficit) / surplus on continuing operations				<b>(8.9)</b>		<b>3.5</b>
<b>Net assets</b>						
Segment net assets	<b>1,416.2</b>	<b>146.7</b>	<b>1,562.9</b>	1,332.1	138.0	1,470.1
Unallocated liability re CPS (see note 20)				<b>(70.6)</b>		(53.9)
Group net assets				<b>1,492.3</b>		<b>1,416.2</b>

## NOTES TO THE ACCOUNTS (continued)

### 11 Prior year adjustments

The basis of preparation of these financial statements differs from the basis of preparation of the University's financial statements for previous years. These financial statements include for the first time the income and expenditure, assets and liabilities of the Local Examinations Syndicate (UCLES), a constituent part of the University, and of subsidiary undertakings forming part of the operational group headed by UCLES.

In previous years, in accordance with FRS 17, the University accounted for its pension costs in relation to the Cambridge University Assistants' Contributory Pension Scheme (CPS), a defined benefit scheme, as if CPS were a defined contribution scheme, since the University, excluding UCLES, was unable to identify its share of the underlying assets and liabilities in the scheme on a reasonable and consistent basis. Now that the University, including UCLES, constitutes substantially the whole contributing employer, pension costs in relation to CPS are accounted for as a defined benefit scheme. The University has adopted the full provisions of FRS 17.

The Cambridge Foundation, a subsidiary undertaking, has been included in the consolidation for the first time.

In previous years investment income arising on endowment assets was credited to the income and expenditure account to the extent of the relevant expenditure incurred and expensed in the year. In accordance with the SORP the accounting policy has been revised and investment income is now credited to the income and expenditure account in the period in which it is earned, with unspent income being transferred from the income and expenditure account to specific endowments.

The accounting policy for heritage assets has been revised. Subject to a de minimis level of £10,000, heritage assets acquired since 1 August 1999 are capitalised at cost or, in the case of donated assets, at valuation on receipt. In previous years all expenditure on heritage assets was written off as incurred.

Comparative figures have been restated to reflect the revised basis of preparation and accounting policies. The effect of the prior year adjustments on the result for the year is as follows.

	2004 £m	2004 £m	2003 £m	2003 £m
Deficit for the year under previous basis of preparation and accounting policies		(16.9)		(2.2)
Change in basis of preparation – inclusion of UCLES, excluding the consequential FRS 17 adjustments in relation to CPS	5.6		11.3	
Change in basis of preparation – inclusion of The Cambridge Foundation	–		–	
Accounting for CPS as a defined benefit scheme	0.7		(11.2)	
Other changes in accounting policy:				
Endowment and investment income	1.7		5.6	
Heritage assets	–		–	
Overall effect of prior year adjustments		8.0		5.7
(Deficit) / surplus for the year as restated		<u>(8.9)</u>		<u>3.5</u>
The effect of these changes on opening net assets and total funds at 1 August 2003 is as follows:				
Increase / (reduction) in reserves:				
Inclusion of UCLES, excluding the consequential FRS 17 adjustments in relation to CPS	130.1		112.2	
Inclusion of The Cambridge Foundation	0.1		–	
Accounting for CPS as a defined benefit scheme	(54.0)		–	
		76.2		112.2
Increase in endowments:				
Inclusion of UCLES	7.8		7.8	
Inclusion of The Cambridge Foundation	0.2		–	
		8.0		7.8
Increase in net funds		84.2		120.0
Increase in deferred capital grants re heritage assets		10.2		10.2
Overall effect of prior year adjustments		94.4		130.2
Opening net assets and total funds at 1 August 2003 as previously reported		1,321.8		1,325.5
Opening net assets and total funds at 1 August 2003 as restated		<u>1,416.2</u>		<u>1,455.7</u>

**NOTES TO THE ACCOUNTS (continued)**

<b>12 Tangible fixed assets</b>	<b>Land and buildings</b>	<b>Assets in construction</b>	<b>Equipment</b>	<b>Heritage assets</b>	<b>2004 Total £m</b>	<b>2003 Restated £m</b>
<b>Group</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>		
<b>Cost or valuation</b>						
At 1 August: As previously stated	<b>601.6</b>	<b>91.1</b>	<b>98.3</b>	—	<b>791.0</b>	676.8
Prior year adjustments (see note 11):						
Inclusion of UCLES	<b>39.4</b>	—	<b>21.9</b>	—	<b>61.3</b>	51.0
Heritage assets	—	—	—	<b>10.2</b>	<b>10.2</b>	9.1
Restated opening balance	<b>641.0</b>	<b>91.1</b>	<b>120.2</b>	<b>10.2</b>	<b>862.5</b>	736.9
Additions at cost	<b>2.7</b>	<b>85.4</b>	<b>22.4</b>	<b>0.5</b>	<b>111.0</b>	126.2
Transfers	<b>63.6</b>	<b>(63.6)</b>	—	—	—	—
Disposals	<b>(1.8)</b>	—	<b>(6.3)</b>	—	<b>(8.1)</b>	(0.6)
At 31 July	<b>705.5</b>	<b>112.9</b>	<b>136.3</b>	<b>10.7</b>	<b>965.4</b>	862.5
<b>Depreciation</b>						
At 1 August: As previously stated	<b>64.4</b>	—	<b>67.2</b>	—	<b>131.6</b>	105.3
Prior year adjustment: inclusion of UCLES (see note 11)	<b>5.5</b>	—	<b>19.3</b>	—	<b>24.8</b>	22.7
Restated opening balance	<b>69.9</b>	—	<b>86.5</b>	—	<b>156.4</b>	128.0
Charge for the year	<b>21.0</b>	—	<b>15.7</b>	—	<b>36.7</b>	28.9
Elimination on disposals	<b>(1.0)</b>	—	<b>(6.1)</b>	—	<b>(7.1)</b>	(0.5)
At 31 July	<b>89.9</b>	—	<b>96.1</b>	—	<b>186.0</b>	156.4
<b>Net book value</b>						
At 31 July	<b>615.6</b>	<b>112.9</b>	<b>40.2</b>	<b>10.7</b>	<b>779.4</b>	706.1
At 1 August (restated)	571.1	91.1	33.7	10.2	706.1	608.9
<b>University</b>						
<b>Cost or valuation</b>						
At 1 August: As previously stated	<b>606.6</b>	<b>91.1</b>	<b>98.1</b>	—	<b>795.8</b>	680.5
Prior year adjustments (see note 11):						
Inclusion of UCLES	<b>26.1</b>	—	<b>17.9</b>	—	<b>44.0</b>	34.5
Heritage assets	—	—	—	<b>10.2</b>	<b>10.2</b>	9.1
Restated opening balance	<b>632.7</b>	<b>91.1</b>	<b>116.0</b>	<b>10.2</b>	<b>850.0</b>	724.1
Additions at cost	<b>2.4</b>	<b>86.7</b>	<b>22.3</b>	<b>0.5</b>	<b>111.9</b>	126.5
Transfers	<b>62.5</b>	<b>(62.5)</b>	—	—	—	—
Disposals	<b>(0.9)</b>	—	<b>(5.3)</b>	—	<b>(6.2)</b>	(0.6)
At 31 July	<b>696.7</b>	<b>115.3</b>	<b>133.0</b>	<b>10.7</b>	<b>955.7</b>	850.0
<b>Depreciation</b>						
At 1 August: As previously stated	<b>64.4</b>	—	<b>67.1</b>	—	<b>131.5</b>	105.2
Prior year adjustment: inclusion of UCLES (see note 11)	<b>3.5</b>	—	<b>15.6</b>	—	<b>19.1</b>	17.4
Restated opening balance	<b>67.9</b>	—	<b>82.7</b>	—	<b>150.6</b>	122.6
Charge for the year	<b>17.8</b>	—	<b>15.5</b>	—	<b>33.3</b>	28.5
Elimination on disposals	<b>(0.1)</b>	—	<b>(5.0)</b>	—	<b>(5.1)</b>	(0.5)
At 31 July	<b>85.6</b>	—	<b>93.2</b>	—	<b>178.8</b>	150.6
<b>Net book value</b>						
At 31 July	<b>611.1</b>	<b>115.3</b>	<b>39.8</b>	<b>10.7</b>	<b>776.9</b>	699.4
At 1 August (restated)	564.8	91.1	33.3	10.2	699.4	601.5

Land and buildings includes land totalling £71.7m (2003: £71.7m) which is not depreciated.

The cost to the group of buildings and assets in construction consists of the cost incurred by the University less the surplus recorded in the accounts of Lynxvale Limited, a subsidiary undertaking, and eliminated on consolidation.

**NOTES TO THE ACCOUNTS (continued)****13 Intangible fixed assets: goodwill**

	<b>Group 2004 £m</b>	<b>Group 2003 £m</b>	<b>Group 2003 £m</b>
Opening balance	<b>2.7</b>		3.3
Amortisation charge for the year	(0.6)		(0.6)
Closing balance	<b>2.1</b>		<b>2.7</b>

**14 Fixed asset investments**

	<b>Group 2004 £m</b>	<b>Group 2003 £m</b>	<b>University 2004 £m</b>	<b>University 2003 £m</b>
Opening balance as previously stated	<b>118.9</b>	120.4	<b>118.9</b>	120.4
Prior year adjustment: inclusion of UCLES (see note 11)	<b>58.7</b>	58.7	<b>72.0</b>	72.0
Restated opening balance	<b>177.6</b>	179.1	<b>190.9</b>	192.4
Additions / (disposals) in the year	<b>10.2</b>	(0.8)	<b>10.2</b>	(0.8)
Increase / (decrease) in market value of investments	<b>8.5</b>	(0.7)	<b>8.2</b>	(0.7)
Closing balance	<b>196.3</b>	177.6	<b>209.3</b>	190.9
Represented by:				
Property	<b>51.7</b>	42.6	<b>51.4</b>	42.3
Securities	<b>125.2</b>	111.3	<b>124.7</b>	114.0
Money market investments	<b>10.5</b>	10.5	<b>8.4</b>	5.3
Investments in subsidiary undertakings	—	—	<b>21.4</b>	22.9
Investment in spin-out companies (see note 29)	<b>7.4</b>	11.8	<b>2.0</b>	5.0
Cash in hand and at investment managers	<b>1.2</b>	1.0	<b>1.2</b>	1.0
Other	<b>0.3</b>	0.4	<b>0.2</b>	0.4
	<b>196.3</b>	177.6	<b>209.3</b>	190.9

**15 Endowment asset investments**

Long-term Investments				
Property	<b>66.3</b>	59.3	<b>66.3</b>	59.2
Securities	<b>321.5</b>	289.0	<b>323.2</b>	290.2
Money market investments	<b>25.5</b>	26.0	<b>25.5</b>	26.0
Cash in hand and at investment managers	—	0.1	—	0.1
	<b>413.3</b>	374.4	<b>415.0</b>	375.5
Investment in spin-out companies (see note 29)	<b>1.9</b>	1.3	—	—
Short-term deposits	<b>48.2</b>	44.1	<b>46.3</b>	44.2
Bank balances	<b>6.1</b>	1.6	<b>6.1</b>	—
	<b>469.5</b>	421.4	<b>467.4</b>	419.7

**16 Debtors**

Research grants recoverable	<b>60.3</b>	74.8	<b>60.3</b>	74.8
Amounts due from subsidiary undertakings	—	—	<b>15.7</b>	23.7
Debtors re examination and assessment services	<b>23.6</b>	22.2	<b>15.7</b>	15.5
Other debtors	<b>24.0</b>	35.5	<b>21.6</b>	32.3

**107.9**      132.5      **113.3**      146.3

**NOTES TO THE ACCOUNTS (continued)**

<b>17 Current asset investments</b>	<b>Group 2004 £m</b>	<b>Group 2003 £m</b>	<b>University 2004 £m</b>	<b>University 2003 £m</b>
Property			<i>Restated</i>	<i>Restated</i>
Securities	<b>13.3</b>	14.8	<b>13.6</b>	15.1
Money market investments	<b>64.2</b>	70.9	<b>65.7</b>	72.4
Short-term deposits	<b>5.1</b>	8.4	<b>5.4</b>	8.5
	<b>192.1</b>	190.7	<b>192.1</b>	190.7
	<b>274.7</b>	284.8	<b>276.8</b>	286.7
Representing:				
University	<b>203.2</b>	202.4	<b>164.0</b>	166.6
Held on behalf of subsidiary undertakings, related parties and other associated bodies (see note 18)	<b>71.5</b>	82.4	<b>112.8</b>	120.1
	<b>274.7</b>	284.8	<b>276.8</b>	286.7
Current asset investments include investments held on behalf of subsidiary undertakings, related parties (see note 30) and other associated bodies. The book value of these investments is included in creditors due within one year.				
<b>18 Creditors: amounts falling due within one year</b>				
Bank overdraft	<b>7.7</b>	4.1	<b>7.6</b>	4.0
Research grants received in advance	<b>56.1</b>	58.5	<b>56.1</b>	58.5
Amounts due to subsidiary undertakings	—	—	—	—
Creditors re examination and assessment services	<b>32.6</b>	32.1	<b>18.1</b>	18.4
Other creditors	<b>101.9</b>	81.1	<b>94.4</b>	77.2
Investments held on behalf of subsidiary undertakings, related parties and other associated bodies (see note 17)	<b>71.5</b>	82.4	<b>112.8</b>	120.1
	<b>269.8</b>	258.2	<b>289.0</b>	278.2
<b>19 Creditors: amounts falling due after more than one year</b>				
Amounts due to subsidiary undertakings	—	—	<b>10.6</b>	10.6
<b>20 Pension liability</b>				
<b>Group</b>	<b>CPS £m</b>	<b>RSAEB £m</b>	<b>2004 Total £m</b>	<b>2003 Total £m</b>
Pension liability re Cambridge University Assistants' Contributory Pension Scheme (CPS) and RSA Examination Board Scheme (RSAEB)				<i>Restated</i>
Opening balance (prior year adjustment - see note 11)	53.9	2.7	<b>56.6</b>	34.0
Movement in year				
Current service cost including life assurance	12.7	0.2	<b>12.9</b>	12.0
Contributions	(12.7)	(0.4)	<b>(13.1)</b>	(0.7)
Other finance income	(0.7)	—	<b>(0.7)</b>	—
Actuarial loss recognised in statement of recognised gains and losses	17.4	(0.3)	<b>17.1</b>	11.3
Closing balance	<b>70.6</b>	2.2	<b>72.8</b>	56.6

**NOTES TO THE ACCOUNTS (continued)****21 Deferred capital grants**

<i>Group and University</i>	Funding Council £m	Research Grants £m	Other Grants £m	2004 Total £m	2003 £m
Balance 1 August					
Buildings	<b>73.4</b>	—	<b>200.6</b>	<b>274.0</b>	160.2
Equipment	<b>9.0</b>	<b>14.2</b>	1.7	<b>24.9</b>	16.1
Heritage assets (prior year adjustment – see note 11)	—	—	<b>10.2</b>	<b>10.2</b>	9.1
	<b>82.4</b>	<b>14.2</b>	<b>212.5</b>	<b>309.1</b>	185.4
Reclassification of fund balances at 1 August 2002:					
Transfer from endowments to deferred grants for buildings	—	—	—	—	44.7
Grants received					
Buildings	<b>18.1</b>	—	<b>31.2</b>	<b>49.3</b>	74.5
Equipment	<b>2.9</b>	<b>8.7</b>	<b>1.5</b>	<b>13.1</b>	17.7
Heritage assets	—	—	<b>0.5</b>	<b>0.5</b>	1.1
	<b>21.0</b>	<b>8.7</b>	<b>33.2</b>	<b>62.9</b>	93.3
Released to income and expenditure for depreciation					
Buildings	(1.7)	—	(4.0)	(5.7)	(5.4)
Equipment	(3.0)	(7.3)	(0.9)	(11.2)	(8.9)
	<b>(4.7)</b>	<b>(7.3)</b>	<b>(4.9)</b>	<b>(16.9)</b>	(14.3)
Balance 31 July					
Buildings	<b>89.8</b>	—	<b>227.8</b>	<b>317.6</b>	274.0
Equipment	<b>8.9</b>	<b>15.6</b>	2.3	<b>26.8</b>	24.9
Heritage assets	—	—	<b>10.7</b>	<b>10.7</b>	10.2
	<b>98.7</b>	<b>15.6</b>	<b>240.8</b>	<b>355.1</b>	309.1

Before 1 August 2002 some capital grants received in relation to assets in construction were held in specific endowments pending the completion of the related projects. Accounting practice was revised in the year ending 31 July 2003 so that capital grants in relation to expenditure included in tangible fixed assets are credited to deferred capital grants when received. Capital grants received in previous financial years relating to assets in construction at 31 July 2002 were transferred from specific endowments to deferred capital grants.

**NOTES TO THE ACCOUNTS (continued)****22 Endowments**

<i>Group</i>	<b>Specific £m</b>	<b>General £m</b>	<b>2004 Total £m</b>	<b>2003 Total £m</b>
Balance 1 August				
As previously stated	<b>407.7</b>	<b>5.7</b>	<b>413.4</b>	460.4
Prior year adjustment (see note 11)	<b>8.0</b>	—	<b>8.0</b>	7.8
Restated opening balance	<b>415.7</b>	<b>5.7</b>	<b>421.4</b>	468.2
Reclassification of fund balances at 1 August 2002:				
Transfer to reserves (see note 23)	—	—	—	(41.4)
Transfer to deferred capital grants (see note 21)	—	—	—	(44.7)
Permanent endowments received	<b>29.9</b>	—	<b>29.9</b>	31.8
Income receivable from endowment asset investments	<b>17.1</b>	<b>0.2</b>	<b>17.3</b>	20.3
Donations and other income	<b>1.1</b>	—	<b>1.1</b>	3.9
Expenditure	<b>(16.6)</b>	<b>(0.2)</b>	<b>(16.8)</b>	(18.6)
Excess of income over expenditure retained in specific endowments	<b>1.6</b>	—	<b>1.6</b>	5.6
Increase in market value of investments	<b>16.3</b>	<b>0.3</b>	<b>16.6</b>	1.9
Balance 31 July	<b>463.5</b>	<b>6.0</b>	<b>469.5</b>	421.4
<i>University</i>				
Balance 1 August				
As previously stated	<b>406.2</b>	<b>5.7</b>	<b>411.9</b>	459.8
Prior year adjustment (see note 11)	<b>7.8</b>	—	<b>7.8</b>	7.6
Restated opening balance	<b>414.0</b>	<b>5.7</b>	<b>419.7</b>	467.4
Reclassification of fund balances at 1 August 2002:				
Transfer to reserves (see note 23)	—	—	—	(41.4)
Transfer to deferred capital grants (see note 21)	—	—	—	(44.7)
Permanent endowments received	<b>29.9</b>	—	<b>29.9</b>	31.8
Income receivable from endowment asset investments	<b>17.0</b>	<b>0.2</b>	<b>17.2</b>	20.3
Donations and other income	<b>1.1</b>	—	<b>1.1</b>	3.1
Expenditure	<b>(16.3)</b>	<b>(0.2)</b>	<b>(16.5)</b>	(18.3)
Excess of income over expenditure retained in specific endowments	<b>1.8</b>	—	<b>1.8</b>	5.1
Increase in market value of investments	<b>15.7</b>	<b>0.3</b>	<b>16.0</b>	1.5
Balance 31 July	<b>461.4</b>	<b>6.0</b>	<b>467.4</b>	419.7
<i>Representing:</i>				
Trust and Special Funds:				
Professorships, Readerships, and Lectureships	<b>175.2</b>	—	<b>175.2</b>	147.4
Scholarships and bursaries	<b>56.9</b>	—	<b>56.9</b>	55.8
Other	<b>214.3</b>	—	<b>214.3</b>	196.8
Examination Board restricted funds	<b>15.0</b>	—	<b>15.0</b>	14.0
General endowments	—	<b>6.0</b>	<b>6.0</b>	5.7
University total	<b>461.4</b>	<b>6.0</b>	<b>467.4</b>	419.7
Subsidiary undertakings	<b>2.1</b>	—	<b>2.1</b>	1.7
Group total	<b>463.5</b>	<b>6.0</b>	<b>469.5</b>	421.4

During the year ended 31 July 2003, the University reviewed the accounting treatment of balances previously referred to as "special funds" and "donations for buildings". Following the review, individual account balances were reclassified where appropriate. Funds received in relation to expenditure included in tangible fixed assets were transferred from specific endowments to deferred capital grants (as explained in note 21). Where donors specified neither a restricted purpose nor long-term investment to generate an income stream, unspent special fund balances were transferred from specific endowments to reserves (see note 23). The distinction between endowment asset investments and current asset investments was adjusted accordingly.

**NOTES TO THE ACCOUNTS (continued)****23 Reserves**  
*Group*

	General reserves £m	Revaluation reserve £m	2004 Total £m	2003 Total £m
Balance 1 August				
As previously stated	<b>396.0</b>	<b>213.5</b>	<b>609.5</b>	571.5
Prior year adjustment (see note 11)	<b>76.2</b>	—	<b>76.2</b>	87.4
Restated opening balance	<b>472.2</b>	<b>213.5</b>	<b>685.7</b>	658.9
Reclassification of fund balances at 1 August 2002:				
transfer from endowments (see note 22)	—	—	—	41.4
Deficit retained for the year	(10.5)	—	(10.5)	(2.1)
Actuarial loss for the year	(17.1)	—	(17.1)	(11.3)
Transfer in respect of depreciation on revalued operational properties	<b>7.2</b>	<b>(7.2)</b>	—	—
Increase / (decrease) in market value of investments	<b>9.6</b>	—	<b>9.6</b>	(1.2)
Balance 31 July	<b>461.4</b>	<b>206.3</b>	<b>667.7</b>	685.7

Reserves are reduced by the net pension liability in respect of defined benefit pension schemes – see note 20

	Reserves before net pension liability £m	206.3	740.5	742.3
	Effect of provision £m	—	(72.8)	(56.6)
Reserves balance at 31 July	<b>461.4</b>	<b>206.3</b>	<b>667.7</b>	685.7

**University**

	General reserves £m	Revaluation reserve £m	2004 Total £m	2003 Total £m
Balance 1 August				
As previously stated	<b>401.2</b>	<b>213.5</b>	<b>614.7</b>	575.6
Prior year adjustment (see note 11)	<b>112.2</b>	—	<b>112.2</b>	107.2
Restated opening balance	<b>513.4</b>	<b>213.5</b>	<b>726.9</b>	682.8
Reclassification of fund balances at 1 August 2002: transfer from endowments (see note 22)	—	—	—	41.4
Deficit retained for the year	(12.7)	—	(12.7)	3.9
Transfer in respect of depreciation on revalued operational properties	<b>7.2</b>	<b>(7.2)</b>	—	—
Increase / (decrease) in market value of investments	<b>9.5</b>	—	<b>9.5</b>	(1.2)
Balance 31 July	<b>517.4</b>	<b>206.3</b>	<b>723.7</b>	726.9

**24 Reconciliation of consolidated operating (deficit) / surplus to net cash inflow / (outflow) from operating activities**

	2004 £m	2003 £m	Restated
(Deficit) / surplus on continuing operations	(8.9)	3.5	
Depreciation of fixed tangible assets	36.7	28.9	
Amortisation of goodwill	0.6	0.6	
Deferred capital grants released to income	(16.9)	(14.3)	
(Surplus) / deficit on disposal of tangible fixed assets	(2.8)	0.1	
Investment income	(30.0)	(36.2)	
Pension cost less contributions payable (see note 20)	(0.2)	11.3	
Decrease / (increase) in stock	(21.5)	(6.1)	
Decrease / (increase) in debtors	0.2	(0.1)	
Increase in creditors	24.6	(8.1)	
Net cash inflow / (outflow) from operating activities	<b>1.0</b>	(20.8)	

**NOTES TO THE ACCOUNTS (continued)**

<b>25 Capital expenditure and financial investment</b>	<b>2004</b>	<b>2003</b>	<i>Restated</i>
	<b>£m</b>	<b>£m</b>	
Purchase of tangible fixed assets	(105.3)	(125.2)	
Donations for buildings and other deferred capital grants received	78.3	92.2	
Proceeds of disposal of tangible fixed assets	3.8	—	
Net purchase of long-term investments (excluding investments held on behalf of others)	(22.6)	(5.9)	
New endowments received	29.9	31.8	
Net cash outflow from capital expenditure and financial investment	(15.9)	(7.1)	

**26 Analysis of the balances of cash and bank overdraft**

	<b>Group 2004</b>	<b>Group 2003</b>	<b>University 2004</b>	<b>University 2003</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
				<i>Restated</i>
Bank overdraft	(7.7)	(4.1)	(7.6)	(4.0)
Bank balances held directly by trust funds	6.1	1.6	6.1	—
Cash at bank and in hand	3.6	4.3	1.4	0.7
	<b>2.0</b>	1.8	(0.1)	(3.3)
Add short term deposits:				
Endowment asset investments	48.2	44.1	46.3	44.2
Current asset investments (excluding those held on behalf of related parties and other associated bodies)	176.5	166.4	140.0	132.2
Net funds	<b>226.7</b>	212.3	<b>186.2</b>	173.1

The bank overdraft includes cheques totalling £9.6m (2003: £6.3m) which have been drawn but not presented against the University's bank account as at 31 July. The management of cash resources provides for a transfer of funds from short term deposits to meet cheques as and when they are presented.

**27 Capital commitments**

	<b>2004</b>	<b>2003</b>	<i>Restated</i>
	<b>£m</b>	<b>£m</b>	
Commitments contracted at 31 July	80.1	133.5	
Authorised but not contracted at 31 July	—	—	

Of the capital expenditure committed at 31 July 2004, approximately 80% (2003: 75%) will be funded by specific grants and donations.

## NOTES TO THE ACCOUNTS (continued)

### 28 Pension schemes

The two principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Cambridge University Assistants' Contributory Pension Scheme (CPS). Employees covered by the schemes are contracted out of the State Second Pension. The assets of the schemes are held in separate trustee-administered funds. The USS and the CPS are not closed, nor is the age profile of their active membership rising significantly.

The schemes are defined benefit schemes which are valued every three years using the projected unit method, by professionally qualified actuaries, the rates of contribution payable being determined by the trustees on the advice of the actuaries.

#### USS

It is not possible to identify each institution's share of underlying assets and liabilities of the scheme, and therefore contributions are accounted for as if it were a defined contribution scheme in accordance with FRS 17. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

	March 2002
Latest actuarial valuation	5.00%
Investment returns per annum	3.70%
Salary scale increases per annum	2.70%
Pension increases per annum	£19,938m
Market value of assets at date of last valuation	101%
Proportion of members' accrued benefits covered by the actuarial value of the assets	

#### CPS

The CPS was established under the authority of the Universities of Oxford and Cambridge Act 1923. It has been approved by the Inland Revenue Savings, Pensions, Share Schemes under Chapter I of Part XIV of the Income & Corporation Taxes Act 1988. The active members of the scheme are employees of the University and its subsidiary undertakings.

#### Triennial valuation of the scheme

A full triennial valuation of the scheme was carried out by the actuary for the trustees of the scheme for funding purposes as at 31 July 2003. The results showed the actuarial value of the scheme's assets as £215.9m. These were insufficient to cover the scheme's past service liabilities of £233.5m and as a result the scheme had a deficit of £17.6m and was 92% funded. Based on the advice of the actuary, the University and its subsidiary undertakings made additional lump sum contributions totalling £12.1m to the scheme during the year ended 31 July 2004. The joint contribution rate was increased to 22.5% of pensionable pay from 1 August 2004, at which it is expected to be maintained.

#### Pension costs under FRS 17

As explained in the principal accounting policies, the University has adopted FRS 17. For accounting purposes the scheme's assets are measured at market value and liabilities are valued using the projected unit method and discounted using the gross redemption yield for corporate AA rated bonds. The valuation uses market-based assumptions and asset valuations, and represents a current valuation. It does not impact on the joint contribution rate set by the trustees of the scheme. A full actuarial valuation for this purpose was carried out as at 31 July 2003 and has been updated to 31 July 2004 by a qualified actuary. The principal assumptions used by the actuary were:

	2004	2003	2002
Discount rate	5.75%	5.70%	5.80%
Inflation assumption	3.00%	2.50%	2.50%
Rate of increase in salaries	3.75%	3.50%	3.50%
Rate of increase in pensions in deferment	3.00%	2.50%	2.50%
Rate of increase in pensions in payment	3.00%	2.50%	2.50%

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

	31 July 2004		31 July 2003		31 July 2002	
	Expected long term		Expected long term		Expected long term	
	rate of return	Value £m	rate of return	Value £m	rate of return	Value £m
Equities	8.00%	164.1	8.00%	156.5	7.00%	156.8
Bonds (including cash)	5.00%	31.4	4.70%	23.7	4.50%	27.9
Property	7.00%	13.3	7.00%	11.8	7.00%	6.3
	<hr/> <b>208.8</b>		<hr/> <b>192.0</b>		<hr/> <b>191.0</b>	

## NOTES TO THE ACCOUNTS (continued)

### 28 Pension schemes (continued)

#### CPS (continued)

The following results were measured in accordance with the requirements of FRS 17 and based on the assumptions summarised above:

	2004 £m	2003 £m	2002 £m
		<i>Restated</i>	<i>Restated</i>
<b>Assets and liabilities at the balance sheet date</b>			
Total market value of scheme assets as above	<b>208.8</b>	192.0	191.0
Present value of scheme liabilities	<b>(279.4)</b>	(245.9)	(222.8)
Net pension liability	<b>(70.6)</b>	(53.9)	(31.8)

The movement for the year in the net pension liability is reflected in note 20.

	2004 £m	2003 £m	Restated
<b>Analysis of the amount included in staff costs for the year</b>			
Current service cost	<b>12.7</b>	11.8	
Life assurance premium	—	—	
Past service cost	—	—	
Total operating charge	<b>12.7</b>	11.8	
<b>Analysis of the amount credited to endowment and investment income for the year</b>			
Expected return on pension scheme assets	<b>14.6</b>	12.8	
Interest on pension scheme liabilities	<b>(13.9)</b>	(12.8)	
Net return	<b>0.7</b>	—	

#### Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)

Actual return less expected return on pension scheme assets	(1.2)	(5.0)
Experience gains and losses arising on the scheme liabilities	(0.8)	(1.7)
Changes in assumptions underlying the present value of the scheme liabilities	<b>(15.4)</b>	(4.3)
Actuarial loss recognised in the STRGL	<b>(17.4)</b>	(11.0)

These amounts are:

As a percentage of scheme assets at the balance sheet date:	
Actual return less expected return on pension scheme assets	<b>(0.6%)</b>
	(2.6%)
As a percentage of the present value of the scheme liabilities at the balance sheet date:	
Experience gains and losses arising on the scheme liabilities	(0.3%)
Actuarial loss recognised in the STRGL	(6.2%)
	(0.7%)
	(4.5%)

The above results have been recognised in the consolidated balance sheet. The University is, however, unable to identify its own share of the underlying assets and liabilities in the scheme, as distinct from that attributable to subsidiary undertakings, on a reasonable and consistent basis. For the University itself, therefore, pension costs are accounted for as if CPS were a defined contribution scheme, and the University's own balance sheet does not include a pension liability.

The University also has a smaller number of staff in other pension schemes, including the National Health Service Pension Scheme (NHSPS) and the RSA Examinations Board scheme (RSAEBS). Pension costs relating to RSAEBS are accounted for in accordance with FRS 17 as applied to a defined benefit scheme and the related pension liability is included in the consolidated balance sheet (see note 20). Further disclosures are not given as the balances and movements are not material.

	2004 £m	2003 £m	Restated
<b>The total pension cost for the year (note 7) was:</b>			
USS: contributions	<b>22.4</b>	21.5	
CPS: charged to income and expenditure account	<b>12.7</b>	11.8	
NHSPS: contributions	<b>0.8</b>	0.6	
RSAEBS: charged to income and expenditure account	<b>0.2</b>	0.2	
Contributions to other pension schemes	<b>0.1</b>	0.1	
	<b>36.2</b>	34.2	

## NOTES TO THE ACCOUNTS (continued)

### 29 Principal subsidiary and associated undertakings and other significant investments

The following undertakings were wholly-owned subsidiary undertakings throughout the year ended 31 July 2004. Except where stated, the accounting reference date is 31 July and the undertaking is a company registered in England and Wales.

Name	Notes	Principal activity
Cambridge Manufacturing Industry Links Limited		Consultancy and commercial exploitation of intellectual property
Cambridge University Environmental Projects Limited		Environmental projects
Cambridge University Technical Services Limited		Consultancy and commercial exploitation of intellectual property
Challenge Fund Trading Company Limited		Providing funds to promote the transfer of research to business
Fitzwilliam Museum Enterprises Limited	a	Publication of fine art books and sale of museum merchandise
Lynxvale Limited		Provision of construction and development services
The Cambridge Foundation	b	Fund raising
The University of Cambridge Challenge Fund Limited		Providing funds to promote the transfer of research to business
<b>Subsidiary undertakings reporting via UCLES</b>	c	Examination services
Cambridge Examinations Inc	d	Training & Consultancy
Mill Wharf Limited		Assessment services
Oxford and Cambridge International Assessment Services Limited		Examination & assessment services
Oxford Cambridge and RSA Examinations RSA Examinations Board		Assessment services
Sandonian Properties Limited		Property holding
The West Midlands Examinations Board		Examination services

- a Fitzwilliam Museum Enterprises Limited has an accounting reference date of 31 January for commercial reasons. The effect of this is not material to the consolidated accounts.
- b The Cambridge Foundation is an exempt charity established by trust deed.
- c Subsidiary undertakings reporting via UCLES have an accounting reference date of 30 September for commercial reasons. For these undertakings the consolidation is based on interim financial statements to 31 July 2004.
- d Cambridge Examinations Inc is a United States non-stock non-profit corporation.

The University has interests in a number of spin-out companies formed to exploit intellectual property rights or inventions. These are included at valuation in fixed asset investments (see note 14) and endowment asset investments (note 15). In some cases the University's interest amounts to 20% or more of the share capital, and these companies are listed below. As the University does not exercise a significant influence over these investments and they are not intended to be held for the long-term, they are not accounted for as associated undertakings. Other undertakings where the University's investment amounts to 20% or more are also listed below. These are not accounted for as associated undertakings as the effect on the financial statements would not be material.

Name	% interest	Principal Activity
Ampika Limited	27	Commercial exploitation of intellectual property
Bluegnome Limited	22	Commercial exploitation of intellectual property
Cambridge Flow Solutions Limited	20	Commercial exploitation of intellectual property
Cambridge in America	22	Fund raising
Cambridge Lab-on-Chip Limited	36	Commercial exploitation of intellectual property
Genapta Limited	31	Commercial exploitation of intellectual property
Markready Limited	22	Research and development
Metalysis Limited	45	Commercial exploitation of intellectual property
Microbial Technics Limited	23	Commercial exploitation of intellectual property
Smart Holograms Limited	43	Commercial exploitation of intellectual property
Vivamer Limited	59	Commercial exploitation of intellectual property

In addition, the University is one of two equal members of Cambridge-MIT Institute Limited (CMI), a joint venture company limited by guarantee whose principal activity is the support of research and educational programmes. At 31 July 2004 and 2003 CMI had nil net assets. In the year ended 31 July 2004 it funded expenditure of £17.2m (2002/03: £14.8m) and its profit after tax was nil (2002/03: nil). During the year CMI reimbursed the University £8.1m (2002/03: £6.6m) for expenditure incurred on projects. As at 31 July 2004 the University was owed £1.5m (2003: £1.4m) by CMI.

## NOTES TO THE ACCOUNTS (continued)

### 30 Related party transactions

In accordance with FRS 8 the University is not required to disclose the transactions and balances between its group undertakings, which have been eliminated on consolidation.

The Cambridge University Press Syndicate (CUP) is a body established and regulated by University Statute. During the year CUP transferred a total of £11.4m (2002/03 £0.5m) to the University, which has been included in:

	2004 £m	2003 £m
Other income	<b>0.3</b>	0.3
Permanent endowments received	<b>7.4</b>	—
Deferred capital grants	<b>3.7</b>	0.2
	<b>11.4</b>	0.5

During the year the University purchased printing services from CUP in connection with its examination and assessment services totalling £8.9m (2002/03 £9.1m). This is included in other operating expenses.

During the year the University contributed £3.0m in total (2002/03: £2.8m) to the Cambridge Commonwealth Trust, the Cambridge Overseas Trust and the Cambridge European Trust. This expenditure is included in General educational expenditure (note 8). These trusts, together with the Gates Cambridge Trust, in providing scholarships and otherwise, contributed approximately £5.6m (2002/03: £5.5m) to the University in academic fees.

At 31 July the University held the following investments on behalf of related parties:	2004 £m	2003 £m	Restated
Cambridge University Press	—	10.7	
Associated Trusts	<b>62.3</b>	62.4	
Total included within current asset investments - see note 17	<b>62.3</b>	73.1	

### 31 Colleges

There are 30 Colleges and one Approved Society (the Colleges) each of which is an independent corporation with its own property and income. The individual audited accounts of the Colleges, in a form specified by the University, are published in the *Cambridge University Reporter*.

During the year payments were made by the University from HEFCE funding in respect of the College fees of publicly-funded undergraduates of £30.1m (2002/03: £30.1m). These payments are included as "Payments to Colleges" in note 8 above. The University also made payments in respect of the College fees of postgraduate students totalling £1.8m. These payments are included in other operating expenses.

The Cambridge Foundation distributed third party donations to the Colleges totalling £5.8m (2002/03: £3.8m). The payments are not included in the consolidated income and expenditure account.

During the year the University provided services to the Colleges including in respect of telephone and data networks for which the Colleges paid a total of £1.9m, and the Colleges provided accommodation, catering and other services to the University for which the University paid a total of £5.7m.

During 2002/03 the University completed the purchase of land from a College at a cost of £8.0m.

Colleges fund	2004 £m	2003 £m
Balance at 1 August	—	0.3
Contributions received from Colleges	<b>2.7</b>	2.9
Payments to Colleges	<b>(2.7)</b>	(3.2)
Balance at 31 July included in creditors	—	—

The Colleges Fund is administered by the University on behalf of the Colleges, who make all contributions to and receive all allocations from the Fund. The transactions on the Colleges Fund are not included in the income and expenditure account.

**NOTES TO THE ACCOUNTS (continued)****32 HEFCE Access funds**

	<b>2004</b> <b>£000</b>	2003 £000
Funding Council grants	577	588
Interest earned	4	4
	<hr/>	<hr/>
Disbursed to students	581	592
	(581)	(592)
	<hr/>	<hr/>
Balance unspent at 31 July	—	—

Funding Council grants are available for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

**33 TTA Minority Ethnic Recruitment grants**

	<b>2004</b> <b>£000</b>	2003 £000
TTA grants	24	21
Disbursed to students	(24)	(21)
	<hr/>	<hr/>
Balance unspent at 31 July	—	—

**APPENDIX****CAMBRIDGE UNIVERSITY PRESS**

<b>Summary of income and expenditure for the year ended 31 December</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
Total incoming resources	<b>125.7</b>	129.2
Expenditure	<b>127.7</b>	131.7
Net outgoing resources for the year	<b>(2.0)</b>	<b>(2.5)</b>

  

<b>Summary of consolidated balance sheet as at 31 December</b>	<b>2003</b>	<b>2002</b>
	<b>£m</b>	<b>£m</b>
<b>Fixed assets</b>		
Intangible fixed assets	<b>3.5</b>	0.7
Tangible fixed assets	<b>49.4</b>	45.2
Invested funds	<b>33.5</b>	28.0
	<b>86.4</b>	73.9
<b>Current assets</b>		
Stock and work in progress	<b>33.2</b>	34.5
Debtors	<b>28.0</b>	26.1
Bank balances and short-term deposits	<b>1.7</b>	11.2
	<b>62.9</b>	71.8
<b>Creditors</b>		
Amounts falling due within one year	<b>(32.0)</b>	(30.2)
<b>Net current assets</b>	<b>30.9</b>	41.6
<b>Total assets less current liabilities</b>	<b>117.3</b>	115.5
Long-term financing	<b>(2.7)</b>	(3.5)
<b>Net assets</b>	<b>114.6</b>	112.0
<b>Represented by:</b>		
General reserve	<b>103.0</b>	102.3
Designated funds	<b>11.2</b>	9.7
	<b>114.2</b>	112.0
Minority interest	<b>0.4</b>	—
	<b>114.6</b>	112.0

The above figures are extracted from the annual accounts as published on <http://uk.cambridge.org/information/annualreport>.