GOVERNORS' REPORT AND FINANCIAL STATEMENTS 05/06

UNIVERSITY OF TEESSIDE

Governors' Report and Financial Statements

2005 - 2006

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BOARD OF GOVERNORS

Independent Members

Mr Sandy Anderson (Chair)

Mr Brian Dinsdale (resigned March 2006)

Mrs Pam Eccles (Vice-Chair)

Mr Neil Etherington

Mrs Margaret Fay

Mr Ernie EJ Haidon

Mr John G Irwin

Mr Eric Lloyd

Dr Iftikhar A Lone

Professor John D McDougall (resigned December 2005)

Mr Keith Robinson

Mr Tom Shovlin

His Honour Judge Leslie Spittle

Mrs Alison Thain

Mrs Judyth J Thomas

Co-opted Members

Mrs Liz Barnes

Ms Beth Beck (retired July 2006)

Mr Stephen Dowson (appointed July 2006)

Ms Jackie Fisher (resigned December 2005)

Mr Haani Ul-Hasnain (appointed October 2005)

Mr Ken Jarrold (resigned October 2006)

Dr Gus Montgomery

Mr Sean Price (appointed March 2006)

Ms Jan Richmond (appointed October 2005)

Mr Peter Rowley

Ms Pat White

Vice-Chancellor and Chief Executive

Professor Graham Henderson

Secretary

Mr J Morgan McClintock

REPORT OF THE BOARD OF GOVERNORS

The Board of Governors submits the Annual Report and audited financial statements for the year ended 31 July 2006.

Constitution and Activities

The University of Teesside is a Higher Education Corporation as defined under the Education Reform Act 1988 ('the Act').

The powers of Higher Education Corporations are defined in Section 124 of the Act and include the power to provide higher and further education and to carry out research and publish the results of the research as the University thinks fit.

The University was incorporated on 1 April 1989 and on that date all properties, rights and liabilities which had been used and/or held by Cleveland County Council for the purposes of the University were transferred to the University.

The University is also an exempt charity under the Act.

Scope of the Financial Statements

The financial statements presented by the Board of Governors comprise the results of the University, its trading subsidiaries and The Friends of the University of Teesside Trust. The subsidiaries and the Trust undertake activities which for commercial or legal reasons are more appropriately accounted for outside the University.

The Trust may provide funds for the assistance and benefit for educational purposes of the University and for other charitable purposes which are connected with and acceptable to the University.

The whole of any taxable profits made by the subsidiaries are gift-aided to the University.

Financial Results

The University's consolidated income, expenditure and results, for the year ended 31 July 2006, are summarised as follows:

	2006	2005
		As restated
	£000	£000
Income	94,951	84,657
Expenditure	(89,794)	(82,713)
Surplus after depreciation of assets at valuation before and after tax	5,157	1,944
Surplus on sale of property	–	169
Surplus after depreciation of assets at valuation, sale of property, before and after tax	5,157	2,113
Transfer from accumulated income within specific endowments	13	21
Surplus for the year retained within general reserves	5,170	2,134
Surplus for the year on an historical cost basis	5,862	2,838

Income has risen by over 12% largely as a result of an increase in teaching and specific grants from the Higher Education Funding Council for England (HEFCE) and an increase in education contracts. The University has concentrated efforts on promoting value in order to generate 'cash' surpluses to fund the on-going estates strategy and as a consequence the surplus has improved by over £3 million compared to last year. As expected the major component of costs relate to staffing which comprise 60.4% (2005 – 62.8%) of total expenditure. There is an increase of £4.6 million in other expenditure which is associated with the increase in specific grants and education contracts referred to above.

The results for the year ended 31 July 2005 have been restated to reflect the full implementation of Financial Reporting Standard 17: Retirement Benefits. The impact of the adoption of this standard on the Income and Expenditure Account has been to increase the surplus by £327,000 in the current year and to reduce it by £862,000 in the previous year. Net assets have been significantly reduced as a result of the University's share of the deficit on the Teesside Pension Fund.

Capital Projects

The University has invested over £5.6 million in its infrastructure and estate during the year.

Construction began on two new buildings, the Institute of Digital Innovation and the Centre for Creative Technologies, both of which are anticipated to be completed during 2006/07 at a total cost of approximately £20 million. Total expenditure in the year on these buildings amounted to almost £2.5 million.

The capital expenditure on both buildings and equipment has been funded from a combination of HEFCE grants, European funding and the University's own resources.

Cash Flow

The group had a net cash inflow of £0.9 million after taking account of a net cash outflow of almost £3.3 million in respect of fixed asset expenditure. A further £5.5 million was invested in short term deposits.

At the balance sheet date, cash at bank and in hand and short term deposits amounted to £30.6 million whilst long term debt, excluding finance leases, was, by comparison, only £9.95 million.

Future Developments

The Institute of Digital Innovation is central to the University's DigitalCity project which aims to create up to 300 new jobs and 130 companies within three years. The building will include specialist digital sound studios and screening rooms, business accommodation for digital technology companies and research and development space. The Regional Development Agency, One NorthEast, is partially grant funding the construction of this building. The Centre for Creative Technologies will provide new state-of-the-art-facilities for computing, media and design students which are areas of significant, and growing, importance to the University.

The University has been awarded an additional 544 student numbers by HEFCE for 2006-07 and is, therefore, developing further foundation degrees with employers and local partner colleges.

The University has also been instrumental in establishing the North East Higher Skills Network comprising all 28 Further and Higher Education institutions in the region. The Network is being supported by HEFCE with a revenue grant of £5.4 million over three years and an allocation of funding for 500 additional students over the two years to 2007/08.

Early indications are that the University has recruited to its HEFCE contract for 2006/07, despite the uncertainties created by the introduction of variable fees and bursary and scholarship arrangements. Governors believe that the University's bursary and scholarship scheme has contributed significantly to the successful recruitment of students.

Employment of People with a Disability

Applications for employment by people with a disability are always fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the University continues and that appropriate training is arranged. It is the policy of the University that the training, career development and promotion of people with a disability should, as far as possible, be identical to that of other employees.

At 31 July 2006 the University employed 44 people who have a disability.

Employee Involvement

The University places considerable value on the involvement of its employees and on good communication with them. A regular official newsletter is made available to all staff and there is a University-wide systematic staff briefing scheme. Staff are encouraged to participate in formal and informal consultation at University, School and Department level, sometimes through the membership of formal committees. The University has a Staff Development Unit, which is responsible for providing a range of training for each staff group.

The University is a holder of the Investor in People award.

Payment of Creditors

Except for separately negotiated agreements, it is the University's policy to pay creditors 30 days after the date of the invoice. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms.

Financial Strategy

The key objectives of the University's financial strategy are to:

- ensure the on-going financial viability of the University;
- ensure the efficient and effective use of the University's assets and funds;
- maintain the University's net current assets at over £2 million, and to maintain liquidity at not less than 40 days expenditure;
- generate an annual operating surplus of at least £0.5 million.

Auditors

RSM Robson Rhodes LLP have indicated their willingness to continue in office and a resolution proposing their re-appointment will be proposed at the meeting of the Board of Governors on 17 November 2006.

Conclusion

The University remains committed to maintaining its sound financial position to enable it to meet its strategic vision.

The Board of Governors would like to take this opportunity to thank all of the staff for their continued support and hard work.

By Order of the Board

17 November 2006

CORPORATE GOVERNANCE

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has applied the principles set out in Section 1 of the Combined Code on Corporate Governance issued by the London Stock Exchange in June 1998. Its purpose is to help the reader of the accounts understand how the principles have been applied.

Responsibilities of the Board of Governors

In accordance with the University's Instrument and Articles of Government, the Board of Governors is responsible for the administration and management of the affairs of the University, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University, and for enabling it to ensure that the financial statements are prepared in accordance with the University's Instrument and Articles of Government, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between HEFCE and the Board of Governors of the University, the Board of Governors, through its designated office holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the Board of Governors has ensured that:

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

The Board of Governors has taken reasonable steps to:

- ensure that funds from HEFCE are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and any other conditions which HEFCE 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; and
- 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, senior management and heads of academic and administrative departments;

- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of key performance indicators and business risks and monthly reviews of financial results involving variance reporting and updates of forecast out-turns;
- clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Governors;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Board of Governors; and
- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Summary of the University's Structure of Corporate Governance

The University's Board of Governors 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 University's Board of Governors comprises up to 20 lay persons appointed under the University's Instrument and Articles of Government, four representatives of staff and students and the University's Chief Executive, the Vice-Chancellor. The role of Chair of the Board of Governors is separated from the role of the University's Chief Executive, the Vice-Chancellor. The Board of Governors is ultimately responsible for all activities of the University. By the Instrument and Articles of Government, and under the Financial Memorandum with HEFCE, the Board of Governors is responsible for the ongoing strategic direction of the University, approval of major developments, and the receipt of regular reports from the Vice-Chancellor and the Board's committees on the operations of its business and its subsidiary companies. The Board of Governors meets approximately six times a year, and has several committees, including a Resources Committee, a Nomination Committee, a Remuneration Committee, an Audit Committee and an Employment Policy Committee. All of these committees are formally constituted with terms of reference and comprise mainly lay members of the Board of Governors.

The Resources Committee *inter alia* recommends to the Board of Governors the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets.

The Employment Policy Committee determines the framework within which senior executives will manage the University's employees.

The Nomination Committee considers nominations for vacancies on the Board.

The Remuneration Committee determines the remuneration of the five holders of Senior Posts.

The Audit Committee meets three times a year and is responsible for meeting with the External Auditors to discuss 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. The members of this committee also receive and consider reports from HEFCE 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. While senior executives attend meetings of the Audit Committee as necessary, they are not members of the committee and, from time to time, the committee meets with the External Auditors on their own for independent discussions.

Statement of Internal Control

The Board of Governors is of the view that there is an ongoing process for identifying, evaluating and managing the University's significant risks, which has been in place for the year ended 31 July 2006 and up to the date of approval of the annual report and accounts; that it is regularly reviewed by the Governing Body; and that it accords with the internal control guidance for the directors on the Combined Code as deemed appropriate for higher education.

The senior management team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training. The Board of Governors has also established a Risk Management Committee, comprising the senior management team and other senior managers. The senior management team and the Audit Committee also receive regular reports from internal audit and the Risk Management Committee, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high-level review of the arrangements for internal control. The Board of Governors' agenda includes a regular item for consideration of risk and control and the Board receives reports thereon from the senior management team and the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. At its November 2006 meeting, the Board of Governors carried out the annual assessment for the year ended 31 July 2006 by considering documentation from the senior management team and internal audit, and taking account of events since 31 July 2006.

INDEPENDENT AUDITORS' REPORT TO THE BOARD OF GOVERNORS OF THE UNIVERSITY OF TEESSIDE

We have audited the financial statements which comprise the income and expenditure account, the balance sheet, the 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 the accounting policies set out therein.

This report is made solely to the Board of Governors, as a body, in accordance with HEFCE Code of Practice. Our audit work has been undertaken so that we might state to the Board of Governors 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 Board of Governors for our audit work, for this report or for the opinion we have formed.

Respective Responsibilities of the Board of Governors and Auditors

As described in the Statement of Responsibilities, the Board of Governors is responsible for preparing the Governors' Report and Financial Statements in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.

We also report to you whether income from funding bodies, grants and income for specific purposes from other restricted funds administered by the University have been properly applied only for the purposes for which they are received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with HEFCE.

We also report to you if, in our opinion, the report of the Board of Governors is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the report of the Board of Governors and consider the implications for our report if we become aware of any apparent misstatement within it.

Basis of Opinion

We conducted our audit in accordance with International Auditing Standards on Auditing (UK and Ireland) 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 Board of Governors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the institution's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the University and the group at 31 July 2006, and of the group's surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended; and the financial statements have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Higher Education Institutions.

ii. In all material respects, income from HEFCE, grants and income for specific purposes and from other restricted funds administered by the University have been applied only for the purposes for which they were received.

iii. In all material respects, income has been applied in accordance with the University's statutes and where appropriate in accordance with the financial memorandum with HEFCE.

RSM Robson Rhodes LLP

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Leeds
27th November 2006

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

(a) Accounting Convention

The financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain tangible fixed assets and in accordance with both the Statement of Recommended Practice: Accounting for Further and Higher Education (SORP) and applicable Accounting Standards.

FRS17 - Retirement Benefits has been adopted in full for the year ended 31 July 2006 and comparative periods have been restated accordingly.

(b) Basis of Consolidation

The consolidated financial statements consolidate the financial statements of the University, its subsidiary undertakings and The Friends of the University of Teesside Trust for the financial year to 31 July.

The consolidated financial statements do not include the income and expenditure of the University of Teesside Students' Union as the University does not exert significant control or dominant influence over policy decisions. The expenditure which is included in the Income and Expenditure Account of the University relates to the University's contribution to Union activities.

(c) Recognition of Income

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs.

Non-recurrent grants from funding councils or other bodies received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

(d) Intangible Fixed Assets

(1) Goodwill

Goodwill is the difference between the cost of an acquired entity and the aggregate of the fair value of that entity's identifiable assets and liabilities.

Positive goodwill is capitalised, classified as an asset on the balance sheet and amortised on a straight line basis over its useful economic life. The amortisation period is ten years. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

(e) Tangible Fixed Assets

(1) Land and Buildings

The majority of freehold land and buildings are stated at valuation. These properties were valued by Storey Sons & Parker, Chartered Surveyors, as at 31 July 1997 in accordance with RICS Statements of Asset Valuation Practice and Guidance Notes. The basis of valuation was depreciated replacement cost and the valuation has not been updated. Certain properties from which the University derives no economic benefit and which, in the opinion of the Board of Governors, have a value substantially less than their depreciated replacement cost were separately valued by the University. Additions since 1 August 1997 are shown at cost.

The University has adopted the transitional provisions of Financial Reporting Standard 15 and has determined not to subsequently revalue its fixed assets from the amounts currently included in the financial statements.

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as below. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the buildings, on a basis consistent with the depreciation policy.

Finance costs which are directly attributable to the construction of land and buildings are not capitalised as part of the cost of those assets.

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

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. They are not depreciated until they are brought into use.

(2) Equipment

Furniture and equipment are included at cost.

Furniture and equipment costing less than £1,500 per individual item or group of related items is written off in the year of acquisition. All other items of furniture and equipment are capitalised.

Where equipment is acquired with the aid of specific grants it is capitalised and depreciated as below. The related grants are credited to a deferred capital grant account and are released to the income and expenditure account over the expected useful economic life of the equipment, on a basis consistent with the depreciation policy.

(3) Vehicles

Vehicles are included at cost.

(4) Depreciation

Depreciation is provided on all tangible fixed assets, other than freehold land and assets in the course of construction, at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation of each asset, evenly over its expected useful life, as follows:

Freehold buildings	Remaining life of each building between 5 and 50 years or finance lease term, if shorter	
Equipment and furniture	10% - 33.33%	per annum
Vehicles	25%	per annum

Assets in the course of construction are not depreciated until brought into use.

Depreciation is provided in the year of acquisition and not in the year of disposal.

(f) Stocks

Stocks are stated at the lower of cost and net realisable value.

(g) Pensions

Retirement benefits for employees of the University are provided by defined benefit schemes which are funded by contributions from the University and employees. The two principal pension schemes are the Teachers' Pension Scheme (TPS) for academic staff and the Teesside Pension Fund (TPF) for non-academic staff. These are both independently administered schemes. A small number of staff are members of the National Health Service Scheme and the Universities Superannuation Scheme.

Pension costs for the TPF are assessed on the latest actuarial valuation of the scheme and are accounted for on the basis of FRS 17. The TPS is a multi-employer scheme and contributions are charged directly to the income and expenditure account as if the scheme was a defined contribution scheme.

The assets of the TPF are included at market value and scheme liabilities are measured on an actuarial basis using the projected unit method; these liabilities are discounted at the current rate of return on AA rated corporate bonds. The post-retirement benefit deficit or surplus is included on the University's balance sheet. The current service cost and any past service costs are included in the income and expenditure account within staff costs and the expected return on the scheme's assets, net of the impact of the unwinding of the discount on the scheme's liabilities, is included in either interest receivable or interest payable. Actuarial gains and losses, including differences between the expected and actual return on scheme assets, are recognised in the statement of total recognised gains and losses.

(h) Taxation Status

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

(i) Leases

Fixed assets held under finance leases and the related lease obligations are recorded in the Balance Sheet at the fair value of the leased assets at the inception of the lease and are depreciated in accordance with the policy set out above. The excess of lease payments over recorded lease obligations is treated as finance charges which are amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

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

Consolidated Income and Expenditure Account, Year ended 31 July 2006

	Note	2006 £000	2005 As restated £000
INCOME			
HEFCE grants	1	**48,549**	40,884
Tuition fees and education contracts	2	**29,948**	27,443
Research grants and contracts	3	**2,113**	2,012
Other income	4	**13,063**	13,546
Endowment and investment income	5	**1,278**	772
Total Income		**94,951**	84,657
EXPENDITURE			
Staff costs	6	**54,281**	51,912
Other operating expenses	7	**30,490**	25,943
Depreciation	9	**3,690**	3,688
Interest payable	8	**1,333**	1,170
Total Expenditure	9	**89,794**	82,713
Surplus on continuing operations after depreciation of fixed assets at valuation before and after tax		**5,157**	1,944
Surplus on sale of property		**–**	169
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		**5,157**	2,113
Transfer from accumulated income within specific endowments		**13**	21
Surplus for the year retained within general reserves		**5,170**	2,134

The Consolidated Income and Expenditure Account of the University, its subsidiary undertakings and The Friends of the University of Teesside Trust relates to continuing operations.

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

Consolidated Statement of Historical Cost Surpluses and Deficits, Year ended 31 July 2006

	Note	2006	2005 As restated
		£000	£000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		**5,157**	2,113
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	22	**705**	674
Realisation of revaluation surplus on property sold in the year		**–**	51
Historical cost surplus for the year before and after tax		**5,862**	2,838

Statement of Total Recognised Gains and Losses, Year ended 31 July 2006

	Note	2006 £000	2005 As restated £000
Surplus on continuing operations after depreciation of fixed assets at valuation, sale of property, before and after tax		**5,157**	2,113
Appreciation of endowment asset investments	14	**3**	13
New endowments	21	**5**	3
Actuarial loss in respect of pension scheme	30	**(810)**	(5,925)
Total recognised gains/(losses) relating to the year		**4,355**	(3,796)
Prior year adjustments*	31	**(22,270)**	–
Total recognised losses since last report		**(17,915)**	(3,796)

Reconciliation

	Note	2006 £000	2005 As restated £000
Opening reserves and endowments as previously stated		**61,427**	58,436
Prior year adjustments	31	**(22,270)**	(15,483)
Opening reserves and endowments as restated		**39,157**	42,953
Total recognised gains and losses for the year		**4,355**	(3,796)
Closing reserves and endowments		**43,512**	39,157

*Net pension liability at 1 August 2005

Balance Sheets as at 31 July 2006

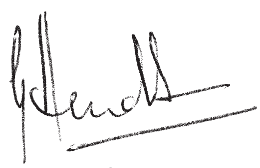
	Note	Consolidated		University	
		2006	2005	**2006**	2005
			As restated		As restated
		£000	£000	**£000**	£000
Fixed Assets					
Intangible assets	11	**–**	–	**–**	–
Tangible assets	12	**75,415**	73,437	**75,659**	73,681
Investments	13	**30**	30	**880**	880
		75,445	73,467	**76,539**	74,561
Endowment Assets	14	**239**	244	**239**	244
Current Assets					
Stocks		**42**	35	**42**	35
Debtors	15	**12,296**	11,131	**14,750**	15,338
Investments		**24,858**	19,374	**24,858**	19,374
Cash at bank and in hand		**5,765**	5,010	**4,911**	3,281
		42,961	35,550	**44,561**	38,028
Creditors - Amounts falling due within one year	16	**(19,372)**	(15,129)	**(21,913)**	(17,850)
Net current assets		**23,589**	20,421	**22,648**	20,178
Total assets less current liabilities		**99,273**	94,132	**99,426**	94,983
Creditors - Amounts falling due after more than one year	17	**(13,950)**	(14,592)	**(14,792)**	(16,169)
Provisions for liabilities and charges	19	**(5,180)**	(5,212)	**(5,180)**	(5,212)
Net assets excluding pension liability		**80,143**	74,328	**79,454**	73,602
Net pension liability	30	**(22,753)**	(22,270)	**(22,753)**	(22,270)
Net assets including pension liability		**57,390**	52,058	**56,701**	51,332

Balance Sheets as at 31 July 2006 continued

	Note	Consolidated		University	
		2006	2005	**2006**	2005
			As restated		As restated
		£000	£000	**£000**	£000
Deferred capital grants	20	**13,878**	12,901	**13,878**	12,901
Endowments					
Specific	21	**239**	244	**239**	244
Reserves					
Income and Expenditure account excluding pension reserve		**42,922**	37,374	**42,233**	36,648
Pension reserve	30	**(22,753)**	(22,270)	**(22,753)**	(22,270)
Income and Expenditure account including pension reserve	23	**20,169**	15,104	**19,480**	14,378
Revaluation reserve	22	**23,104**	23,809	**23,104**	23,809
Total Reserves		**43,273**	38,913	**42,584**	38,187
TOTAL		**57,390**	52,058	**56,701**	51,332

The financial statements on pages 12 to 42 were approved by the Board of Governors on 17 November 2006 and were signed on its behalf by:

Chair of Governors



Vice-Chancellor

Consolidated Cash Flow Statement, Year ended 31 July 2006

	Note	2006	2005
		£000	£000
Cash flow from operating activities	26	**10,162**	6,557
Returns on investments and servicing of finance	27	**124**	128
Capital expenditure and financial investment	27	**(3,254)**	(1,836)
Management of liquid resources	27	**(5,484)**	(10,334)
Financing	27	**(642)**	7,292
Increase in cash in the year		**906**	1,807

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET FUNDS

	Note	2006	2005
Increase in cash in the year		**906**	1,807
Increase in short-term deposits		**5,484**	10,334
Cash outflow from repayment of debt		**642**	208
New debt		–	(7,500)
Movement in net funds		**7,032**	4,849
Net funds at 1 August 2005		**9,110**	4,261
Net funds at 31 July 2006	28	**16,142**	9,110

Notes to the Financial Statements, Year ended 31 July 2006

(1) HEFCE GRANTS

	2006 £000	2005 £000
Recurrent grant	**42,016**	37,205
Specific grants	**5,791**	3,041
Deferred capital grants released in year (note 20)		
Buildings	**176**	174
Equipment	**566**	464
	48,549	40,884

(2) TUITION FEES AND EDUCATION CONTRACTS

	2006 £000	2005 £000
Full-time students fees	**8,401**	8,223
Full-time students charged overseas fees	**2,077**	1,993
Part-time students fees	**2,319**	2,139
Total fees paid by or on behalf of individual students	**12,797**	12,355
Education contracts	**17,151**	15,088
	29,948	27,443

(3) RESEARCH GRANTS AND CONTRACTS

	2006 £000	2005 £000
Research Councils	**170**	57
UK based charities	**56**	131
UK Central Government	**716**	631
UK Health Service	**221**	362
European Commission	**842**	738
Other grants and contracts	**108**	93
	2,113	2,012

(4) OTHER INCOME

	2006	2005
	£000	£000
Residences, catering and conferences	**2,795**	2,658
Other income generating activities	**1,377**	1,223
Other grant income	**5,342**	5,464
Release from deferred capital grants (note 20)	**302**	281
Other income	**3,247**	3,920
	13,063	13,546

(5) ENDOWMENT AND INVESTMENT INCOME

	2006	2005
	£000	£000
Income from specific endowment asset endowments (note 21)	**13**	13
Other interest receivable	**1,265**	759
	1,278	772

(6) STAFF

	2006	2005
		As restated
	£000	£000
Staff costs:		
Wages and salaries	**45,330**	42,361
Social security costs	**3,527**	3,290
Other pension costs (including FRS 17 adjustments)	**4,816**	5,648
Increase in the provision for enhanced pensions (note 19)	**287**	523
Restructuring costs	**321**	90
	54,281	51,912

The emoluments of the Vice-Chancellor for the year ended 31 July 2006 were:	**£**	£
Remuneration	**163,200**	153,333
Benefits in kind	**11,136**	10,787
	174,336	164,120
Pension costs (on the same basis as for other academic staff)	**22,032**	20,700
	196,368	184,820

(6) STAFF continued

Remuneration of other senior staff including benefits in kind and excluding employer's pension contributions

	2006	2005
	Number	Number
£70,000 - £79,999	**1**	1
£80,000 - £89,999	**1**	3
£90,000 - £99,999	**2**	2
£100,000 - £109,999	**1**	–

Average staff numbers by major category (full-time equivalents):

	2006	2005
Academic	**601**	581
Administrative and technical	**726**	712
Other	**205**	187
	1,532	1,480

(7) OTHER OPERATING EXPENSES

	2006	2005
	£000	£000
Residences, catering and conferences operating expenses	**621**	636
Operating lease rentals - land and buildings	**624**	588
Equipment and materials	**3,449**	2,842
Books and periodicals	**1,184**	1,071
Heat, light, water and power	**977**	962
Repairs and general maintenance	**1,819**	1,419
Grant to University of Teesside Students' Union	**540**	525
Franchised courses	**3,525**	2,716
Communication	**525**	559
Travel and subsistence	**3,121**	3,164
Advertising and publicity	**1,133**	1,007
Auditors' remuneration - University	**32**	30
Auditors' remuneration - subsidiary companies	**4**	3
Auditors' remuneration in respect of non-audit services	**3**	4
Long term maintenance and capital projects	**1,675**	1,204
Professional and consultancy fees	**4,694**	3,147
Training courses and conference fees	**680**	439
Stationery and printing	**847**	813
Student research grants and bursaries	**613**	205
Other expenses	**4,424**	4,609
	30,490	25,943

(8) INTEREST PAYABLE

	2006	2005 As restated
	£000	£000
Bank loans not wholly repayable within five years	**533**	324
Finance leases	**477**	483
Pension finance cost	**323**	363
	1,333	1,170

(9) ANALYSIS OF 2005/2006 EXPENDITURE BY ACTIVITY

	Staff costs	Other operating expenses	Depreciation	Interest payable	Total
	£000	£000	£000	£000	£000
Academic departments	33,168	11,402	728	–	45,298
Academic services	3,943	2,851	474	–	7,268
Research grants and contracts	987	985	50	–	2,022
Residences, catering and conferences	780	1,245	254	395	2,674
Premises	2,643	3,996	2,041	615	9,295
Administration	8,927	5,221	57	–	14,205
Other expenses	3,833	4,790	86	323	9,032
Total per Income and Expenditure Account	**54,281**	**30,490**	**3,690**	**1,333**	**89,794**

Of the total depreciation charge of £3,690,000, £174,000 relates to assets acquired under finance leases.

The depreciation charge has been funded by:

	£000
Deferred capital grants released (note 20)	1,044
Revaluation reserve released (note 22)	705
General income	1,941
	3,690

(10) SURPLUS ATTRIBUTABLE TO PARENT UNDERTAKING

The surplus dealt with in the accounts of the parent undertaking was £5,207,000 (2005 - £2,238,000 as restated).

(11) INTANGIBLE FIXED ASSETS - GOODWILL

	Consolidated and University
	£000
Cost	
At 31 July 2006 and 31 July 2005	270
Amortisation	
At 31 July 2006 and 31 July 2005	270
Net Book Value	
At 31 July 2006 and 31 July 2005	-

(12) TANGIBLE FIXED ASSETS

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
Consolidated	£000	£000	£000	£000	£000
Cost/Valuation					
At 1 August 2005	85,632	967	107	16,936	103,642
Additions in year	1,495	2,838	7	1,328	5,668
Transfers in year	44	(44)	–	–	–
Written off in year	–	–	–	(141)	(141)
At 31 July 2006	87,171	3,761	114	18,123	109,169
Depreciation					
At 1 August 2005	14,975	–	77	15,153	30,205
Charge for year	2,251	–	19	1,420	3,690
Written off in year	–	–	–	(141)	(141)
At 31 July 2006	17,226	–	96	16,432	33,754
Net Book Value					
At 31 July 2006	**69,945**	**3,761**	**18**	**1,691**	**75,415**
At 31 July 2005	70,657	967	30	1,783	73,437

(12) TANGIBLE FIXED ASSETS continued

	Freehold land and buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
University	£000	£000	£000	£000	£000
Cost/Valuation					
At 1 August 2005	85,995	967	107	15,546	102,615
Additions in year	1,495	2,838	7	1,328	5,668
Transfers in year	44	(44)	–	–	–
Written off in year	–	–	–	(141)	(141)
At 31 July 2006	87,534	3,761	114	16,733	108,142
Depreciation					
At 1 August 2005	14,975	–	77	13,882	28,934
Charge for year	2,251	–	19	1,420	3,690
Written off in year	–	–	–	(141)	(141)
At 31 July 2006	17,226	–	96	15,161	32,483
Net Book Value					
At 31 July 2006	**70,308**	**3,761**	**18**	**1,572**	**75,659**
At 31 July 2005	71,020	967	30	1,664	73,681

Financial Reporting Standard No 15 'Tangible Fixed Assets': the transitional rules set out in FRS 15 have been applied on implementing FRS 15. Accordingly, the book values at implementation have been retained.

Assets transferred from subsidiary undertaking relate to assets held under a finance lease which at the end of the lease term reverted back to the holding company.

(12) TANGIBLE FIXED ASSETS continued

At 31 July 2006 the net book value of freehold land and buildings, for the group and the University, includes £1,816,000 (31 July 2005: £1,990,000) in respect of assets held under finance leases.

Analysis of cost or valuation

	Freehold land and Buildings	Assets in the course of construction	Vehicles	Equipment and furniture	Total
	£000	£000	£000	£000	£000
Consolidated					
1997 Professional Valuation	48,167	–	–	–	48,167
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	36,360	3,761	114	18,123	58,358
At 31 July 2006	**87,171**	**3,761**	**114**	**18,123**	**109,169**
University					
1997 Professional Valuation	48,167	–	–	–	48,167
1997 University Valuation	645	–	–	–	645
1998 University Valuation	1,999	–	–	–	1,999
Cost	36,723	3,761	114	16,733	57,331
At 31 July 2006	**87,534**	**3,761**	**114**	**16,733**	**108,142**

Asset revaluations

The majority of land and buildings held at 31 July 1997 were revalued at that date by Storey Sons & Parker, Chartered Surveyors. The basis of valuation was that of depreciated replacement cost and the valuation has not been updated. Certain properties, which in the opinion of the Governors have had a permanent diminution in value due to a significant reduction in use by the University and which in their opinion have a value substantially less than their depreciated replacement cost, were separately valued by the University.

If the freehold land and buildings had not been revalued they would have been included at the following amounts:

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Cost	61,829	60,290	62,133	60,594
Accumulated depreciation and impairment	(14,983)	(13,437)	(14,983)	(13,437)
Net book value	**46,846**	46,853	**47,150**	47,157

(13) INVESTMENTS

	Other Investments
	£000
Consolidated	
Cost	
At 31 July 2006 and 31 July 2005	**30**

	Other Investments	Subsidiary Undertakings	Total
	£000	£000	£000
University			
Cost			
At 31 July 2006 and 31 July 2005	**30**	**850**	**880**

The University's subsidiary undertakings (all of which are registered in England and Wales) and its percentage shareholding in each are as follows:

Subsidiary Undertaking	**Nature of Business**	**Shareholding**
University of Teesside Enterprises Limited	Commercial activities, enterprise, trading and liaison with industry and commerce.	Limited by guarantee
EPICC Limited	Dormant.	Limited by guarantee
TEESNAP Limited	To provide and promote educational and training services relating to nursing, midwifery and associated professions and/or professions allied to medicine and to provide management services related to the aforementioned.	100% Ordinary Shares
The Virtual Reality Centre at Teesside Limited	Dormant.	100% Ordinary Shares
Roundbeat Limited	Dormant.	100% Ordinary Shares
Teesside Library Company Limited	To provide library services.	100% Ordinary Shares

The University also consolidates The Friends of the University of Teesside Trust, an independent trust which may provide funds for the assistance and benefit for educational purposes of the University and for other charitable purposes which are connected with and acceptable to the University.

(14) ENDOWMENT ASSET INVESTMENTS

	Consolidated and University
	£000
At 1 August 2005	244
Additions	56
Disposals	(64)
Appreciation on disposals/revaluation	3
At 31 July 2006	**239**

	Valuation at 31 July 2006	Valuation at 31 July 2005
	£000	£000
Fixed interest stocks	**5**	35
Equities	**123**	104
Tax and other debtors	**–**	2
Bank balances	**111**	103
Total endowment asset investments	**239**	244
Fixed interest stocks and equities at cost	**105**	134

(15) DEBTORS

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Debtors	**4,309**	4,022	**3,959**	2,866
Prepayments and accrued income	**7,457**	6,867	**7,205**	6,111
Amounts due from subsidiary undertakings	**–**	–	**3,586**	6,361
Other debtors	**530**	242	**–**	–
	12,296	11,131	**14,750**	15,338

Included within amounts due from subsidiary undertakings is £935,000 (2005: £1,770,000) which is due after more than one year.

(16) CREDITORS - AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Bank overdraft	**–**	143	**–**	143
Mortgages and unsecured loans	**642**	642	**642**	642
Payments received on account	**4,144**	5,016	**3,897**	4,541
Creditors	**3,336**	2,736	**3,323**	2,733
Social security and other taxation payable	**1,857**	1,471	**1,857**	1,455
Accruals and deferred income	**9,393**	5,121	**9,370**	5,118
Amounts due to subsidiary undertakings	**–**	–	**2,824**	3,218
	19,372	15,129	**21,913**	17,850

(17) CREDITORS - AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Loans secured on residential and other property repayable by 2022	**9,950**	10,592	**9,950**	10,592
Obligations under finance leases (note 18)	**4,000**	4,000	**4,000**	4,000
Amounts due to subsidiary undertakings	**–**	–	**842**	1,577
	13,950	14,592	**14,792**	16,169

(18) BORROWINGS

a Bank loans and overdrafts

	Consolidated and University 2006 £000	Consolidated and University 2005 £000
Bank loans and overdrafts are repayable as follows:		
In one year or less	**642**	785
Between one and two years	**642**	642
Between two and five years	**1,926**	1,926
In five years or more	**7,382**	8,024
	10,592	11,377

Bank loans include mortgages at 0.3% above Bank of England Base Rate and 0.6% above LIBOR, repayable by instalments and secured on freehold properties of the University.

b Finance leases

	Consolidated and University 2006 £000	Consolidated and University 2005 £000
The net finance lease obligations to which the University is committed are:		
In five years or more	**4,000**	4,000

The finance leases relate to academic and student accommodation.

(19) PROVISIONS FOR LIABILITIES AND CHARGES

	Consolidated and University £000
At 1 August 2005	5,212
Utilised in year	(319)
Transfer from Income and Expenditure Account	287
At 31 July 2006	**5,180**

The provision is in respect of pension enhancements payable to staff who have taken early retirement. The provision was recalculated at 31 July 2006 using the latest available actuarial tables.

(20) DEFERRED CAPITAL GRANTS

Consolidated and University	HEFCE £000	Other Grants and Benefactions £000	Total £000
At 1 August 2005			
Buildings	5,822	6,179	12,001
Equipment	768	132	900
Total	6,590	6,311	12,901
Cash received and receivable			
Buildings	194	1,014	1,208
Equipment	708	105	813
Total	902	1,119	2,021
Released to Income and Expenditure Account			
Buildings (notes 1 and 4)	176	191	367
Equipment (notes 1 and 4)	566	111	677
Total	742	302	1,044
At 31 July 2006			
Buildings	5,840	7,002	12,842
Equipment	910	126	1,036
Total	**6,750**	**7,128**	**13,878**

(21) SPECIFIC ENDOWMENTS

	Consolidated and University £000
At 1 August 2005	244
Additions	5
Appreciation of endowment asset investments	3
Income for year	13
Expenditure for year	(26)
At 31 July 2006	**239**

(22) REVALUATION RESERVE

	Consolidated and University
	£000
At 1 August 2005	23,809
Transfer to Income and Expenditure Account	(705)
At 31 July 2006	**23,104**

The transfer to the Income and Expenditure Account is in respect of the excess depreciation as a result of the revaluation of freehold land and buildings.

(23) INCOME AND EXPENDITURE ACCOUNT

	Consolidated	University
	£000	£000
At 1 August 2005 as previously stated	37,374	36,648
Prior year adjustment in respect of FRS 17	(22,270)	(22,270)
At 1 August 2005 as restated	15,104	14,378
Surplus retained for the year	5,170	5,207
Transfer from revaluation reserve	705	705
Actuarial loss in respect of pension scheme	(810)	(810)
At 31 July 2006	**20,169**	**19,480**

(24) LEASE OBLIGATIONS

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Operating lease commitments in respect of land and buildings for the 2006/07 financial year, on leases expiring:				
Within one year	585	625	585	625
Between one and five years	–	–	–	–
In five years or more	–	–	–	–
	585	625	**585**	625

(25) FUTURE CAPITAL COMMITMENTS

	Consolidated		University	
	2006	2005	**2006**	2005
	£000	£000	**£000**	£000
Commitments contracted at 31 July	**16,409**	601	**16,409**	601

(26) RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2006	2005 As restated
	£000	£000
Surplus before tax	**5,157**	2,113
Depreciation	**3,690**	3,688
Deferred capital grants released to income	**(1,044)**	(919)
Investment income	**(1,278)**	(772)
Interest payable	**1,010**	807
Pensions cost less contributions payable	**(327)**	862
Profit on sale of fixed assets	**–**	(169)
(Increase)/decrease in stocks	**(7)**	3
Increase in debtors	**(421)**	(569)
Increase in creditors	**3,414**	1,300
(Decrease)/increase in provisions	**(32)**	213
Net cash inflow from operating activities	**10,162**	6,557

(27) ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2006 £000	2005 £000
Returns on investments and servicing of finance		
Income from endowments	**13**	13
Interest received	**1,187**	896
Interest element of finance lease rental payments	**(535)**	(517)
Other interest paid	**(541)**	(264)
Net cash inflow for returns on investments and servicing of finance	**124**	128
Capital expenditure and financial investment		
Purchase of tangible fixed assets	**(4,630)**	(3,572)
Purchase of endowment asset investments	**(44)**	(33)
Sale of tangible fixed assets	**–**	207
Sale of endowment asset investments	**58**	33
Endowments received	**5**	3
Deferred capital grants received	**1,357**	1,526
Net cash outflow for capital expenditure and financial investment	**(3,254)**	(1,836)
Management of liquid resources*		
Net movement in short-term deposits	**(5,484)**	(10,334)
Financing		
Repayment of bank loan	**(642)**	(208)
Loans acquired	**–**	7,500
Net cash (outflow)/inflow of financing	**(642)**	7,292

*The University of Teesside includes as liquid resources term deposits of one year or less.

(28) ANALYSIS OF CHANGES IN NET FUNDS

	At 1 August 2005 £000	Cash Flows £000	Other non-cash Changes £000	**At 31 July 2006 £000**
Cash in hand and at bank	5,010	755	–	**5,765**
Endowment assets	103	8	–	**111**
Overdraft	(143)	143	–	**–**
	4,970	906	–	**5,876**
Short-term deposits	19,374	5,484	–	**24,858**
Debt due after 1 year	(10,592)	–	642	**(9,950)**
Debt due within 1 year	(642)	642	(642)	**(642)**
Finance leases	(4,000)	–	–	**(4,000)**
	9,110	7,032	–	**16,142**

(29) MAJOR NON-CASH TRANSACTIONS

An additional provision of £287,000 (2005: £523,000) has been provided in the year in respect of pension enhancements payable to staff who have taken early retirement.

(30) PENSION AND SIMILAR OBLIGATIONS

The University's employees belong to two principal pension schemes: the Teachers' Pension Scheme England and Wales (TPS) for academic and related staff; and the Local Government Pension Scheme established locally as the Teesside Pension Fund (TPF) for non-teaching staff, the administering authority of which is Middlesbrough Borough Council. Both are defined benefit schemes.

Total pension cost for the year

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Teachers' Pension Scheme: contributions paid	**2,904**	2,708
Teesside Pension Fund: charge to the Income and Expenditure Account (staff costs)	**1,886**	2,913
Other pension scheme contributions paid	**26**	27
Total pension cost for the year	**4,816**	5,648

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuations of the TPS and the TPF were 31 March 2001 and 31 March 2004 respectively.

Teachers' Pension Scheme (TPS)

The TPS is an unfunded defined benefit scheme. Contributions on a pay as you go basis are credited to the exchequer under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purposes of determining contribution rates.

The pensions cost is assessed not less than every five years in accordance with the advice of the government actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2001
Actuarial method	Prospective benefit
Investment returns per annum	7.0% per annum
Salary scale increases per annum	5.0% per annum
Market value of assets at date of last valuation	£142,880 million
Proportion of members' accrued benefits covered by the actuarial value of the assets	100%

Following the implementation of Teachers' Pensions (Employers' Supplementary Contributions) Regulations 2000 the government actuary carried out a further review on the level of employer contributions. For the period from 1 August 2005 to 31 July 2006 the employer contribution was 13.5%.

An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

Under the definitions set out in Financial Reporting Standard 17 (FRS 17) Retirement Benefits, the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme.

Teesside Pension Fund (TPF)

The TPF is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contributions made for the year ended 31 July 2006 were £3,559,000, of which employer's contributions totalled £2,536,000 and employees' contributions totalled £1,023,000. The agreed contribution rates for future years are 14.9% for the employer and 6% for employees.

An appropriate provision in respect of unfunded pensioners' benefits is included in provisions.

FRS 17

The following information is based upon a full actuarial valuation of the Fund at 31 March 2004 updated at each year end to 31 July 2006 by a qualified independent actuary.

	At 31 July 2006	At 31 July 2005	At 31 July 2004
Rate of increase in salaries	**5.2%**	4.9%	4.9%
Rate of increase for pensions in payment/inflation	**3.2%**	2.9%	2.9%
Discount rate for liabilities	**5.1%**	5.1%	5.8%
Proportion of employees opting to take a commuted lump sum	**50%**	N/A	N/A

Changes to the TPF

Changes to the Local Government Pension Scheme, of which the TPF is part, permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed that 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this will reduce the value of the University's pension liabilities by £1,441,000 and this has been included, as a credit, within staff costs in the Income and Expenditure Account.

(30) PENSION AND SIMILAR OBLIGATIONS continued

The University's share of the assets in the scheme (31 July 2006: 3.09%, 31 July 2005: 3.07% and 31 July 2004: 2.98%) and the expected rates of return were:

	2006		2005	
	Long term rate of return expected	**Value at 31 July**	Long term rate of return expected	Value at 31 July
	%	**£000**	%	£000
Equities	7.5	42,216	7.5	34,508
Gilts	4.4	5,340	4.5	4,950
Other bonds	5.1	705	5.3	1,059
Property	7.0	2,692	7.0	2,354
Cash	4.5	5,308	4.3	3,951
Total market value of assets		**56,261**		46,822
Present value of scheme liabilities		**(79,014)**		(69,092)
Deficit in the scheme		**(22,753)**		(22,270)

	2004	
	Long term rate of return expected	Value at 31 July
	%	£000
Equities	7.9	26,137
Gilts	5.4	–
Other bonds	5.4	5,249
Property	6.7	2,051
Cash	4.5	3,335
Total market value of assets		36,772
Present value of scheme liabilities		(52,255)
Deficit in the scheme		(15,483)

(30) PENSION AND SIMILAR OBLIGATIONS continued

Analysis of the amount charged to the Income and Expenditure Account

	Year ended 31 July 2006 £000	Year ended 31 July 2005 £000
Service cost	3,303	2,898
Past service cost	(1,441)	–
Curtailments and settlements	23	15
Total operating charge	**1,885**	2,913
Analysis of pension finance costs		
Expected return on pension scheme assets	3,277	2,719
Interest on pension liabilities	(3,600)	(3,082)
Pension finance costs	**(323)**	(363)
Amount recognised in the Statement of Total Recognised Gains and Losses (STRGL)		
Actual return less expected return on employer's share of pension scheme assets	3,909	4,961
Experience gains and losses arising on the employer's share of the scheme liabilities	–	467
Changes in assumptions underlying the present value of the scheme's liabilities	(4,719)	(11,353)
Actuarial loss recognised in the STRGL	**(810)**	(5,925)
Movement in deficit during the year		
Deficit in the scheme at 1 August	(22,270)	(15,483)
Movement in year:		
Current employer service charge	(3,303)	(2,898)
Employer contributions	2,535	2,414
Curtailments and settlements	(23)	(15)
Past service costs	1,441	–
Other finance costs	(323)	(363)
Actuarial loss	(810)	(5,925)
Deficit in scheme at 31 July	**(22,753)**	(22,270)

(30) PENSION AND SIMILAR OBLIGATIONS continued

History of experience gains and losses

	2006	2005	2004	2003
Difference between the expected and actual return on scheme assets:				
Amount (£000)	**3,909**	4,961	545	(440)
Percentage of scheme assets	**6.9%**	10.6%	1.5%	(1.4%)
Experience gains and losses on scheme liabilities:				
Amount (£000)	**–**	524	(1,108)	(530)
Percentage of the present value of the scheme liabilities	**–**	0.7%	(2.1%)	(1.1%)
Total amount recognised in STRGL:				
Amount (£000)	**(810)**	(5,925)	(627)	(7,355)
Percentage of the present value of the scheme liabilities	**(1.0%)**	(8.6%)	(1.2%)	(15.7%)

(31) PRIOR YEAR ADJUSTMENT

The prior year adjustment relates to the full implementation of FRS 17.

FRS 17 requires the assets of defined benefit pension schemes, such as the local government scheme, to be measured at market value at each balance sheet date, and the liabilities to be measured using a specific valuation method and to be discounted using a corporate bond rate. Any resulting share of the pension scheme surplus or deficit is recognised on the University's balance sheet. Any resulting gains and losses are recognised in the statement of total recognised gains and losses rather than being recognised gradually in the income and expenditure account.

The adoption of FRS 17 has resulted in the following impact on the Income and Expenditure Account and Statement of Total Recognised Gains and Losses. In accordance with the transitional arrangements of FRS 17, these figures have been reported in the notes to the University's financial statements since the year ended 31 July 2001.

	Group	**University**
	2005	**2005**
	£000	**£000**
Income and Expenditure Account as previously stated (note 23)	37,374	36,648
Pension liability at 1 August 2004	(15,483)	(15,483)
Movement during 2004/05:		
Employer contributions	2,414	2,414
Employer service cost	(2,898)	(2,898)
Curtailment and settlement costs	(15)	(15)
Net interest	(363)	(363)
Actuarial loss	(5,925)	(5,925)
Income and Expenditure Account as restated at 31 July	**15,104**	**14,378**

(31) PRIOR YEAR ADJUSTMENT continued

Analysis of prior year adjustment

	Consolidated and University 2006 £000
Adjustment to opening Income and Expenditure Account	(15,483)
Adjustment to Income and Expenditure Account for the year ended 31 July 2005	(862)
Adjustment to the Statement of Total Recognised Gains and Losses for the year ended 31 July 2005	(5,925)
Total	**(22,270)**

(32) ACCESS FUNDS

	2006 £000	2005 £000
HEFCE grants	**1,060**	885
Interest earned	**15**	17
	1,075	902
Disbursed to students	**(1,010)**	(820)
Balance unspent at 31 July 2006	**65**	82

HEFCE grants are available solely for students. The University acts only as paying agent.

The grants and related disbursements, to the extent of total access fund income, are therefore excluded from the income and expenditure account.

(33) RELATED PARTY TRANSACTIONS

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations), it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 Related Party Disclosures.

The University has taken the exemption under FRS 8, relating to subsidiary undertakings where 90% or more of the voting rights are controlled within the group, not to disclose related party transactions.

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Published by the Corporate Communications Unit CAG 4885