

statement of accounts

for the year ended 31 July 2003

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financial highlights
for the year ended 31 July 2003

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT		2002/03	2001/02	Change
		£ million	£ million	
Funding Council Grants		55.55	50.59	9.8%
Academic Fees and Support Grants		57.70	49.35	16.9%
Research Grants and Contracts		30.36	28.06	8.2%
Other Operating Income		67.53	62.34	8.3%
Endowment Income and Interest Receivable		1.64	1.14	43.9%
Total Income		212.78	191.48	11.1%
Surplus for the Financial Year		4.72	5.34	-11.6%
CONSOLIDATED BALANCE SHEET				
		2003	2002	
		£ million	£ million	
Fixed Assets		161.59	136.47	
Endowment Asset Investments		2.14	2.69	
Net Current (Liabilities) / Assets		(1.38)	12.00	
Total Assets less Current Liabilities		162.35	151.16	
Long Term Creditors and Provisions		(25.51)	(27.43)	
Total Net Assets		136.84	123.73	10.6%
CAPITAL EXPENDITURE IN THE YEAR		34.95	15.41	126.8%
NET CASH INFLOW FROM OPERATING ACTIVITIES				
		2002/03	2001/02	
		£ million	£ million	
		26.18	14.59	79.4%
OTHER KEY STATISTICS				
		2002/03	2001/02	
		Number	Number	
Full Time students:-	Home / EU Undergraduates	8,332	7,972	4.5%
	Home / EU Postgraduates	1,523	1,362	11.8%
	Overseas Undergraduates	1,285	1,049	22.5%
	Overseas Postgraduates	1,388	1,059	31.1%
Total number of students		19,483	17,904	8.8%
Total staff numbers		3,565	3,400	4.9%

treasurer's report

It took 28 years – often of high inflation – for the University's income to reach £100 million but, such has been the pace of recent development, only a further 11 years were needed for it to break through the £200 million barrier which it has done by a handsome margin in the year under review. Compared with the previous year, income showed growth of over 11% (to £212.8 million) and that increase was spread over all categories but, most notably, Academic Fees and Support Grants which rose by 17% yet again boosted by strong recruitment from overseas and also by a significant growth in Short Course fees.

This growth has required a continuing investment in the infrastructure. I have commented before on the University's apparently insatiable appetite for capital expenditure and a record £35 million was spent during the year on buildings and equipment. That figure excludes the acquisition, for £17.6 million, of National Grid House - now renamed University House - which has taken place since the year end. Added to that a further £46.8 million of capital expenditure has been authorised for future years though at the year end the bulk of it had yet to be contracted.

Last year I suggested that this expenditure would be matched by a significant increase in borrowing but that did not prove to be the case. For a number of reasons our cash position was much stronger than expected. Payments received in advance were up, management of trade creditors improved and payments in respect of the Heronbank residential development were rescheduled to reflect the pace of progress. On the debtors side we were able to release some bad debt provisions which happily proved not to be needed. All of this enabled us to defer drawing down about £12 million of our agreed loan facilities, an unintended consequence of which is that the Balance Sheet shows negative net assets at the year end and means we were technically in breach of one of our borrowing covenants. Our bankers quite understand and the position has, in any event, since been rectified, a £20 million drawdown having now taken place - half for Heronbank and half for University House.

The surplus for the year of £4.7 million was struck after a lump sum extra payment of £1 million into The University of Warwick Pension Scheme fund (which continues to show a shortfall of assets against liabilities) and a one-off increase of about £1.1 million in the depreciation charge occasioned by a thorough review of the fixed asset register. Taking account of these items the outcome is very satisfactory. The Business School had a most successful year and the Manufacturing Group, now fully recovered from its problems of a couple of years ago, made an important contribution as did our Commercial and Related Activities Group which grew its year-on-year gross contribution by very nearly 12%. The surplus was also helped by lower than forecast spending by the Estates Department and by the deferral of planned spending by academic departments.

One matter that the accounts reveal which is particularly worthy of note is the number of 'spin-out' companies in which the University now has an interest. In the accounts for 2001 just three such investments were recorded; last year the number rose to ten and this year to thirteen. This growth reflects the increased resources devoted to seeking out opportunities for commercial development from within University departments and although none have yet been 'floated off' the potential is there for the future.

There are a number of interesting challenges to be faced in the current year. For the University, the integration with Horticultural Research International, control of which is planned to be ceded to us by DEFRA next spring, will certainly be demanding but we have high hopes of the mutual benefits which will flow particularly on the research front. We also face the excitement of moving into University House, which should enable us to improve the quality of the services we provide to our students.

treasurer's report

(continued)

For the Government the challenge is to resolve the debate on how higher education is to be funded in the future. There seems to be agreement amongst all the protagonists that the sector is seriously underfunded but there is no resolution yet. We hope for a speedy conclusion as to how the shortfall shall be made good. One thing is certain – the problem will not go away but the longer a decision is delayed the more difficult it becomes to plan for the future.

P Dodd, Treasurer

12 December 2003

corporate governance

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

- 1 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 with the guidance to universities which has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities and Colleges in England and Northern Ireland.
- 2 The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in March 1965. Its objects, powers and framework of governance are set out in the Charter and its supporting Statutes, which was approved by the Privy Council in 2001/2002 in its current form.
- 3 The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:
 - The Council – is the executive governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. It has a majority of members from outside the University, (described as lay members), from whom its Chair and Treasurer must be drawn. Also included in its membership are representatives of the staff of the University and the student body. None of the lay members receive any payment, apart from the reimbursement of expenses, for the work that they undertake for the University.
 - The Senate – is the academic authority of the University and draws its membership entirely from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.
 - The Court – is a large, mainly formal body. It offers a means whereby the wider interests served by the University can be associated with the institution, and provides a public forum where members of Court can raise any matters about the University. The Court normally meets once a year to receive the Annual Report and Accounts of the University. A majority of the members of the Court will be from outside the University, representing the local community and other designated bodies with an interest in the work of the University, but the membership also includes representatives of the staff of the University (both academic and non-academic) and the student body.
- 4 The principal academic and administrative officer of the University is the Vice-Chancellor who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England, the Vice-Chancellor is the designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.
- 5 Although the Council meets at least four times each academic year, much of its detailed work is initially handled by committees, in particular the Finance and General Purposes Committee, the Nominations Committee, the Remuneration Committee and the Audit Committee. The decisions of these Committees are formally reported to the Council.

corporate governance

(continued)

- 6 These Committees are formally constituted as Committees of the Council with written terms of reference and specified membership, including a significant proportion of lay members (from whom the Chair will be selected).
- 7 As chief executive of the University, the Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Pro-Vice Chancellors and the senior administrative officers all contribute in various ways to this aspect of the work, but ultimate responsibility for what is done rests with the Vice-Chancellor.
- 8 The Registrar maintains a Register of Interests of members of the Council in which any pecuniary or non-pecuniary interests are expected to be registered if a member considers that a conflict of interest could arise or be perceived to arise. The Register of Interests may be consulted by arrangement with the Registrar. Similar arrangements apply to Directors of the University subsidiary companies and registers are operated by the Company Secretary for these companies.
- 9 The Statutes of the University specify that the Registrar should act as Secretary of the Council. Any enquiries about the constitution and governance of the University should be addressed to the Registrar.
- 10 The University acknowledges and endorses the principles of corporate governance, including adopting a risk based approach to internal controls. The University has undertaken a review of the major risks to which it is exposed so as to develop a risk strategy covering business, operational and compliance issues, in addition to finance systems, thereby improving internal controls, procedures and systems to mitigate risks.

statement of internal control

The Council has responsibility for maintaining a sound system of internal control that supports the achievement of the University's policies, aims and objectives. In accordance with the requirements of the Charter and Statutes and the Financial Memorandum with the HEFCE, the Council are also responsible for safeguarding the public and other funds and assets under the University's control.

The internal controls operated by the University are designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; they can therefore only provide reasonable and not absolute assurance of effectiveness.

The University operates a system of risk management, which is 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 effectively. This process has been in place for the year ended 31 July 2003 and up to the date of approval of the financial statements, and accords with relevant HEFCE guidance.

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

- The Council meets five times a year to consider the plans and strategic direction of the University.
- The Council receives termly reports from the Audit Committee including consideration of risk management and requires regular reports from managers on the management of their areas of responsibility, including progress reports on key projects.
- The University has established a Risk Management Group, chaired by the Deputy Vice-Chancellor, to co-ordinate the risk management processes.
- The Audit Committee receives regular reports from the Head of Internal Audit on internal control matters.
- The Audit Committee also receives a termly report from the Risk Management Group on the management of the University's significant risks.
- The University now requires most departments and commercial activities to incorporate a consideration of risks into their annual plans.
- The input relating to risks contained within individual departmental plans is then used in the process of updating the University's register of significant risks. The Risk Management Group and the University's Steering Committee also participate in the updating process.

The Council's review of the effectiveness of internal controls is informed by the reports of Internal Audit. During the current year Internal Audit have begun to broaden their activities to include the audit of non-financial risks, to bring them into line with the standards defined in the HEFCE Audit Code of Practice. The University's internal audit arrangements were last reviewed for effectiveness by the HEFCE Audit Service in February 2002.

The Council's review of the effectiveness of internal control is also informed by the work of managers within the University, who have responsibility for the development and maintenance of controls and by comments made by the external auditors, principally in their management letter.

responsibilities of the council

of the university of warwick

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

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

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

- the most appropriate 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;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England and the Teacher Training Agency are used only for the purpose for which they have been given in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council or the Agency 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 of Warwick and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- clear definitions of the responsibilities of, and the authority delegated to, 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 academic performance and of financial results involving variance reporting and updates of forecast outturns;
- 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 Council;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Finance and General Purposes Committee of Council;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee.

report of the independent auditors

to the council of the university of warwick

We have audited the financial statements on pages 14 to 39 which have been prepared under the historical cost convention and in accordance with the accounting policies set out on pages 11 to 13. This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council for our audit work, for this report or for the opinions we have formed.

respective responsibilities of the University's Council and the auditors

The University's Council is responsible for preparing the financial statements. Our responsibilities as independent auditors are established by Statute, the Auditing Practices Board, the Higher Education Funding Council for England and our profession's ethical guidance.

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 on Accounting in Further and Higher Education Institutions. We also report to you whether, in all material respects, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether, in all material respects, income has been applied in accordance with the Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and 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, the accounting records do not agree with the financial statements or if we have not received all the information and explanations we require for our audit.

We have also, at the request of the Council, reviewed whether the Statement of Internal Control reflects the University's compliance with the relevant provisions of the Combined Code specified for our review in so far as they apply to the Higher Education Sector, and we report if it does not. We are not required to consider whether the statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the University's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Treasurer's Report (including the corporate governance statement), and consider the implications for our report if we become aware of any apparent misstatements within it.

basis of opinion

We conducted our audit in accordance with 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 University's Council 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.

report of the independent auditors

to the council of the university of warwick (continued)

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

opinion

In our opinion:

- 1 the financial statements give a true and fair view of the state of affairs of the University and the group as at 31 July 2003 and of the surplus of income over expenditure, recognised gains and losses and cash flows of the group for the year then ended and have been properly prepared in accordance with the Statement of Recommended Practice on Accounting in Further and Higher Education Institutions;
- 2 in all material respects, income from the Higher Education Funding Council for England and the Teacher Training Agency, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2003 have been applied for the purposes for which they were received;
- 3 in all material respects, income during the year ended 31 July 2003 has been applied in accordance with the University's Statutes and, where appropriate, with the Financial Memorandum with the Higher Education Funding Council for England and the funding agreement with the Teacher Training Agency.

KPMG LLP
12 December 2003

Chartered Accountants
Registered Auditor

statement of principal accounting policies

1 Accounting Convention

The financial statements have been prepared under the historical cost convention as amended by the revaluation of certain fixed asset investments and in accordance with the Statement of Recommended Practice (SORP): Accounting in Further and Higher Education Institutions and applicable Accounting Standards.

2 Basis of Consolidation

The consolidated financial statements include the financial statements of the University and its subsidiary undertakings and the University of Warwick Foundation and its subsidiary. The consolidated financial statements do not include those of the University of Warwick's Students' Union Services Ltd and other subsidiaries of the Union, as these are separate organisations in which the University has no control or significant influence over policy decisions.

3 Recognition of Income

Income from Specific Endowments and Donations, Specific Grants and Research Grants and Contracts is included to the extent of the expenditure incurred during the year, together with any related contributions towards overhead costs. Income from Other Services Rendered is included to the extent of completion of the contract or services concerned and is measured at the fair value of the consideration receivable. All income from short-term deposits and general endowment asset investments is credited to the Income and Expenditure Account on a receivable basis.

4 Pension Schemes

The University participates in the Universities Superannuation Scheme (USS), a pension scheme which provides benefits based on final pensionable salary for the academic and academic-related employees of all UK universities and some other employers. The assets of the Scheme are held in a separate trustee-administered fund. Other staff are offered membership of the University's own pension scheme. A small number of staff remain in other pension schemes. The University's own scheme is an exempt approved pension scheme for the benefit of its non-academic staff. The scheme provides retirement benefits (based on final pensionable salary) and lump sum and spouse's death-in-service benefits. The scheme is set up under trust and the assets are held in a separate trustee-administered fund.

5 Foreign Currencies

Transactions denominated in foreign currencies are recorded at the average rate of exchange ruling for each month. Monetary assets and liabilities denominated in foreign currencies are recorded at the closing rate of exchange ruling at the year end. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

statement of principal accounting policies

(continued)

6 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. The excess of lease payments over recorded lease obligations are 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.

7 Fixed Assets

Land and buildings

Land and buildings are stated at cost. Land is not depreciated as it is considered to have an indefinite useful life. Buildings under construction are not depreciated until they are completed. Finance costs, which are directly attributable to the construction of land and buildings, are not capitalised as part of the cost of these assets. Buildings are depreciated in equal instalments over their expected useful lives of 50 years and laboratory and other major refurbishments over 10 - 20 years. Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to income over the expected useful life of the buildings. The University has no inherited assets.

Equipment

In the accounts of the University, equipment, including micro-computers, costing less than £15,000 per individual item or group of related items and vehicles costing less than £5,000 are written off in the year of acquisition. Software licences are not capitalised. All other equipment is capitalised. Capitalised equipment other than computer networks and certain information technology equipment is stated at cost and depreciated over five years. Computer networks are depreciated over ten years and certain items of information technology equipment are depreciated over three years. Equipment bought for a specific research or other project is depreciated over the shorter of five years or the life of the project. Any related grants are treated as deferred capital and released to income over the expected useful economic life of the related asset on a basis consistent with the depreciation policy.

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

8 Investments

Endowment asset investments are included in the Balance Sheet at market value. Other investments are included at the lower of cost and net realisable value.

9 Stocks

Stocks include departmental stocks in science departments, supplies for the Estates Office and goods for resale in catering, bars and retail outlets and are valued at the lower of cost and net realisable value. Stocks of other consumable materials are written-off to revenue as incurred.

statement of principal accounting policies

(continued)

10 Provisions

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

11 Liquid Resources

Liquid resources comprise money on short-term deposit with a maturity date less than six months as at the Balance Sheet date.

12 Taxation Status

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

consolidated income and expenditure account

for the year ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
INCOME			
Funding Council Grants	1	55,545	50,591
Academic Fees and Support Grants	2	57,706	49,353
Research Grants and Contracts	3	30,357	28,057
Other Operating Income	4	67,531	62,337
Endowment Income and Interest Receivable	5	1,643	1,141
Total Income		212,782	191,479
EXPENDITURE			
Staff Costs	6	109,463	99,539
Depreciation	9	8,973	7,423
Other Operating Expenses	8	87,887	77,408
Interest Payable	7	1,728	1,908
Total Expenditure	8	208,051	186,278
SURPLUS AFTER DEPRECIATION OF ASSETS AT COST AND BEFORE TAX		4,731	5,201
Taxation		0	0
SURPLUS AFTER DEPRECIATION OF ASSETS AT COST AND TAX		4,731	5,201
Equity Minority Interests		(12)	135
SURPLUS FOR THE FINANCIAL YEAR		4,719	5,336

statement of consolidated total recognised gains and losses

for the year ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Surplus after Depreciation of Assets at Valuation and Tax		4,719	5,336
Appreciation / (Depreciation) of Endowment Asset Investments	18	6	(178)
Endowment Income Retained for Year	18	(786)	(197)
New Endowments	18	227	246
TOTAL RECOGNISED GAINS SINCE LAST ACCOUNTS		4,166	5,207

There are no differences between the consolidated income and expenditure account and the result on an historical cost basis. The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations. The consolidated surplus includes £3,044k (2002: £3,452k) that has been dealt with in the accounts of the University.

balance sheets

as at 31 July 2003

	Note	Consolidated		University	
		2003 £000	2002 £000	2003 £000	2002 £000
FIXED ASSETS					
Tangible Assets	9	161,330	136,209	138,300	121,719
Investments	10	262	260	540	538
		161,592	136,469	138,840	122,257
ENDOWMENT ASSET INVESTMENTS					
	11	2,138	2,691	0	0
CURRENT ASSETS					
Stocks		1,078	1,118	1,035	1,067
Debtors	12	27,765	26,589	38,520	40,280
Short Term Deposits		9,000	9,000	9,000	9,000
Cash at Bank and in Hand		13,821	12,403	13,460	9,194
		51,664	49,110	62,015	59,541
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR					
	13	(53,042)	(37,110)	(50,854)	(40,810)
NET CURRENT (LIABILITIES) /ASSETS					
		(1,378)	12,000	11,161	18,731
TOTAL ASSETS LESS CURRENT LIABILITIES					
		162,352	151,160	150,001	140,988
CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR					
	14	(25,095)	(26,590)	(35,053)	(36,909)
PROVISIONS FOR LIABILITIES AND CHARGES					
	16	(417)	(838)	(417)	(838)
TOTAL NET ASSETS					
		136,840	123,732	114,531	103,241
DEFERRED CAPITAL GRANTS					
	17	43,492	34,562	37,641	29,395
ENDOWMENTS: Specific					
	18	2,138	2,691	0	0
RESERVES: Income and Expenditure Account					
	19	91,181	86,462	76,890	73,846
MINORITY INTEREST					
		29	17	0	0
TOTAL FUNDS					
		136,840	123,732	114,531	103,241

The financial statements on pages 14 to 39 were approved by the Council on 12 December 2003, and signed on its behalf by:

Professor V D VandeLinde, Vice-Chancellor

P Dodd, Treasurer

consolidated cash flow statement

for the year ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Net Cash Inflow from Operating Activities	23	26,179	14,590
Returns on Investments and Servicing of Finance	24	(710)	(892)
Taxation		0	0
Capital Expenditure and Financial Investment	25	(23,010)	(9,420)
Cash Inflow before Use of Liquid Resources and Financing		2,459	4,278
Management of Liquid Resources withdrawals from short term investments	26	465	138
Financing	27	(1,506)	(1,813)
INCREASE IN CASH		1,418	2,603

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

for the year ended 31 July 2003

	Note	2002/03 £000	2001/02 £000
Increase in Cash in the Period		1,418	2,603
(Decrease) in Liquid Resources	26	(465)	(138)
Repayment of Debt	27	1,506	1,813
Change in Net Funds		2,459	4,278
Net (Debt) at 1 August		(4,886)	(9,164)
NET (DEBT) AT 31 JULY	26	(2,427)	(4,886)

notes to the accounts

1. HIGHER EDUCATION FUNDING COUNCIL FOR ENGLAND & TEACHER TRAINING AGENCY GRANTS

	2002/03	2001/02
	£000	£000
Recurrent Grants:		
Higher Education Funding Council for England:		
Teaching	28,509	25,593
Research	20,032	17,929
Teacher Training Agency	2,547	2,591
Specific Grants:		
HE Innovations Fund	513	137
Development of Teaching and Learning	440	248
Teaching Training Agency Specific Grants	297	64
Collaboration and Restructuring	200	539
Disability Access Grant	160	0
HEROBC	120	298
Widening Participation	110	0
Library Research Support	92	131
HE Community Active Fund	81	0
Foundation Degrees	72	100
Joint Information Systems Committee	68	125
Human Resources Strategy	0	900
Others	167	685
Deferred Capital Grants Released in Year:		
Buildings (Note 17)	1,771	584
Equipment (Note 17)	366	667
	55,545	50,591

A sum of £1,367k was received in the year as the Human Resources Strategy Grant. The University has deferred this income to match with planned expenditure in future periods.

2. ACADEMIC FEES AND SUPPORT GRANTS

	2002/03	2001/02
	£000	reanalysed £000
Full time students charged standard fees	12,490	11,954
Full time students charged non-standard fees	21,303	18,324
Full time students charged overseas fees	15,311	13,794
Part time fees	864	813
Short Course fees	3,604	1,738
CASE Awards and Research Training Support Grants	1,677	926
Other fees	2,457	1,804
	57,706	49,353

notes to the accounts

(continued)

3. RESEARCH GRANTS AND CONTRACTS	2002/03	2001/02
	£000	£000
Income		
Research Councils	11,555	11,459
Central Government, Local Authorities and Public Corporations	8,662	6,313
Industry and Commerce	1,740	3,029
Charitable Bodies	4,271	3,686
European Union	2,981	2,526
Overseas	914	777
Others	234	267
	30,357	28,057
Direct Expenditure		
Research Councils	8,752	9,143
Central Government, Local Authorities and Public Corporations	6,795	5,099
Industry and Commerce	1,395	2,156
Charitable Bodies	4,239	3,627
European Union	2,592	2,167
Overseas	741	664
Others	211	244
	24,725	23,100

Income from Research Grants and Contracts includes £1,211k in respect of Deferred Capital Grants released in the year (2002: £1,193k) - see also Note 17. Costs include spend within the University group of companies.

4. OTHER OPERATING INCOME	2002/03	2001/02
	£000	reanalysed £000
Residences, Catering and Conferences	20,491	20,653
Other Services Rendered	6,284	7,414
Released from Deferred Capital Grants (Note 17)	208	395
Retail Operations	17,538	14,848
Post-Experience Centres	9,668	8,779
Other Income	13,342	10,248
	67,531	62,337

5. ENDOWMENT INCOME AND INTEREST RECEIVABLE	2002/03	2001/02
	£000	£000
Chairs and Lectureships	66	66
Fellowships, Scholarships and Prizes	99	34
General	536	127
Income from Short Term Investments	942	914
	1,643	1,141

notes to the accounts

(continued)

6. STAFF	2002/03	2001/02
	£000	£000
Staff Costs		
Wages and Salaries	91,528	84,047
Social Security Costs	6,999	6,315
Other Pension Costs	10,936	9,177
	109,463	99,539

During the year, the University made an additional one-off employer's contribution of £1 million to the University of Warwick Pension Scheme.

	2002/03	2001/02
	£	£
Emoluments of the Vice-Chancellor (excluding pension contributions but including benefits-in-kind)	180,625	165,874
Pension contributions to private pension schemes in respect of the Vice-Chancellor	34,204	33,600
	214,829	199,474

The Vice-Chancellor made a gift to the University of £4,000 during the year, by waiving part of his remuneration. This amount is included within the total disclosed above. The University has decided to apply the amount of £4,000 towards scholarships or other similar purposes.

Emoluments of other Higher Paid Staff (excluding the employer's pension contributions but including benefits-in-kind) and payments made on behalf of the NHS in respect of its contractual obligations to University staff under separate NHS contracts of employment:

	2002/03	2001/02
£160,000 - £169,999	1	0
£150,000 - £159,999	1	1
£140,000 - £149,999	1	0
£130,000 - £139,999	0	1
£120,000 - £129,999	2	1
£110,000 - £119,999	2	1
£100,000 - £109,999	6	3
£90,000 - £99,999	4	3
£80,000 - £89,999	18	9
£70,000 - £79,999	26	13

notes to the accounts

(continued)

7. INTEREST PAYABLE	2002/03 £000	2001/02 £000
Loans not wholly repayable within five years	1,728	1,870
Finance Leases	0	38
	1,728	1,908

8. ANALYSIS OF 2002/03 EXPENDITURE BY ACTIVITY

	Total £000	Staff Costs £000	Depreciation £000	Other Operating Expenses £000	Interest Payable £000
Academic Departments	79,029	53,410	815	24,804	0
Research Grants and Contracts	24,725	14,888	1,102	8,735	0
Total Teaching and Research	103,754	68,298	1,917	33,539	0
Academic Services	17,338	7,361	1,294	8,683	0
Central Administration and Services	12,351	6,815	483	5,053	0
General Educational Expenditure	6,236	1,872	0	4,364	0
Staff and Student Facilities	3,366	1,712	38	1,616	0
Premises	17,304	5,995	3,706	7,603	0
Residences, Catering and Conferences	18,245	7,867	1,109	7,657	1,612
Other Services Rendered	5,334	2,252	0	3,082	0
Retail Operations	17,123	4,060	59	12,888	116
Post-Experience Centres	5,673	3,111	367	2,195	0
Other Expenses	1,327	120	0	1,207	0
Total per Income and Expenditure Account	208,051	109,463	8,973	87,887	1,728

The depreciation charge has been funded by:

	2002/03 £000
Deferred Capital Grants Released (Note 17)	3,556
General Income	5,417
	8,973

notes to the accounts

(continued)

Other operating expenses include:	2002/03 £000	2001/02 £000
Auditors' Remuneration	43	42
(An amount of £24k relates to the Auditors' remuneration for the University in 2002/2003)		
Auditors' Remuneration in respect of Non-Audit Services	65	47
Grants to University of Warwick Students' Union	1,028	907

9. TANGIBLE FIXED ASSETS

Consolidated

	Total £000	Freehold Land & Buildings £000	Plant Machinery & Equipment £000	Leased Equipment £000
Cost				
At 1 August 2002	194,976	161,905	29,364	3,707
Additions at cost	34,953	26,329	8,624	0
Disposals at cost	(1,439)	(1,391)	(48)	0
At 31 July 2003	<u>228,490</u>	<u>186,843</u>	<u>37,940</u>	<u>3,707</u>
Depreciation				
At 1 August 2002	58,767	35,115	19,945	3,707
Charge for the year	8,973	4,896	4,077	0
Eliminated on Disposals	(580)	(536)	(44)	0
At 31 July 2003	<u>67,160</u>	<u>39,475</u>	<u>23,978</u>	<u>3,707</u>
Net Book Value at 31 July 2003	<u>161,330</u>	<u>147,368</u>	<u>13,962</u>	<u>0</u>
Net Book Value at 31 July 2002	<u>136,209</u>	<u>126,790</u>	<u>9,419</u>	<u>0</u>

The balance for 'Freehold Land and Buildings' includes the land comprising the site of Scarman House, a post-experience centre. Legal title to the Scarman House building currently rests with Barclays Mercantile. The building has been leased to Warwick University Training Limited (the Company which operates Scarman House).

The Company is responsible for lease payments totalling £12.49 million (2002: £13.88 million) over the remaining term of the lease, which expires in 2011. The University has entered into a contract with Barclays Mercantile to guarantee these payments for the remainder of the lease term.

At the termination of the lease, title to the building will pass to the University. At that time, the net book value of the building is projected to be £4.34 million.

notes to the accounts

(continued)

9. TANGIBLE FIXED ASSETS - continued

The consolidated expenditure on new buildings in the year ended 31 July 2003 was:

	£000
New Build:	
Sports Centre Extension	2,172
Warwick Business School Phase 2	814
Warwick Medical School	194
International Manufacturing Centre Phase 3	181
Under Construction:	
Lakeside Residences Phase 2 - Heronbank	11,587
Maths and Statistics Building	8,578
Biotechnology Building Phase 4	1,237
Refurbishments:	
Refurbishment of the Advanced Technology Centre	740
Refurbishment of Rootes Reception and Offices	372
Refurbishment of Biological Sciences Laboratories	260
Other Refurbishments	194
	26,329

University

	Total £000	Freehold Land & Buildings £000	Plant, Machinery & Equipment £000
Cost			
At 1 August 2002	172,548	146,504	26,044
Additions at Cost	25,550	16,756	8,794
Disposals at Cost	(1,439)	(1,391)	(48)
At 31 July 2003	196,659	161,869	34,790
Depreciation			
At 1 August 2002	50,829	32,557	18,272
Charge for the Year	8,195	4,553	3,642
Eliminated on Disposals	(665)	(621)	(44)
At 31 July 2003	58,359	36,489	21,870
Net Book Value at 31 July 2003	138,300	125,380	12,920
Net Book Value at 31 July 2002	121,719	113,947	7,772

notes to the accounts

(continued)

10. INVESTMENTS

	Consolidated		University	
	2003 £000	2002 £000	2003 £000	2002 £000
Group Undertakings	0	0	278	278
Other Equity Investments	354	352	354	352
	354	352	632	630
Provision for Diminution in Value	(92)	(92)	(92)	(92)
	262	260	540	538

Other Equity investments includes:

CVCP Properties plc	50,766 ordinary shares of £1.00 each
Protherics plc	9,198 6% unsecured convertible loan notes
New Opportunities Investment Trust plc	3,199 redeemable ordinary shares of £0.05 each

The University also holds investments in:

Dig-e-Print Limited

25,000 ordinary shares being 25.00% of issued ordinary shares - 91,668 Class 'A' ordinary shares and 52,381 Class 'B' ordinary shares have also been issued.

Herfurth LaserTechnology Limited

62,500 Class 'A' ordinary shares being 35.71% of issued Class 'A' ordinary shares.

The Mercia Fund

This is a limited partnership between the Universities of Birmingham and Warwick and the General Partner, Mercia Fund Management Limited. The investment comprises of a capital contribution of £100 and a grant of £199,900. The Universities each hold one Class 'B' share of £1 (there are 2 Class 'B' shares in issue) in Mercia Fund Management Limited. All the Class 'A' shares are held by West Midlands Enterprise Limited.

MNW Limited

33 ordinary shares being 33.33% of issued ordinary shares.

Multimetaphase Limited

50,000 ordinary shares being 33.33% of issued ordinary shares - 43,182 Class 'A' ordinary shares and 60,000 redeemable preference shares have also been issued.

Neurosolutions Limited

225 ordinary shares being 25.00% of issued ordinary shares.

Novolytics Limited

800 ordinary shares being 24.24% of issued ordinary shares - 4,680 redeemable preference shares have also been issued.

Septegen Limited

300 ordinary shares being 23.08% of issued ordinary shares.

Shibden Technologies Limited

3,000 ordinary shares being 11.18% of issued ordinary shares.

notes to the accounts

(continued)

10. INVESTMENTS - continued

Streamline Computing Limited

12,500 ordinary shares being 18.85% of issued ordinary shares - 16,000 Class 'A' ordinary shares have also been issued.

Warwick Control Technologies Limited

16,200 Class 'A' ordinary shares being 34.50% of issued Class 'A' ordinary shares - 41,600 Class 'B' ordinary shares have also been issued.

Warwick Dynamics Limited

15 ordinary shares being 15.00% of issued ordinary shares.

Warwick Effect Polymers Limited

2,888 ordinary shares and 59,360 redeemable preference shares being 31.59% of issued ordinary shares and 100.00% of redeemable preference shares.

Warwick Moulding Technology Limited

18,000 ordinary shares being 22.50% of issued ordinary shares.

All the companies listed above are incorporated in Great Britain and registered in England. The results of these companies have not been consolidated into the accounts on the basis of materiality. This will be reviewed on an annual basis.

11. ENDOWMENT ASSET INVESTMENTS

	Consolidated		University	
	2003	2002	2003	2002
	£000	£000	£000	£000
Balance at 1 August 2002	2,691	2,981	0	0
Additions	44	64	0	0
Disposals	(138)	(165)	0	0
Appreciation / (Depreciation) on Disposals / Revaluation	6	(178)	0	0
(Decrease) / Increase in Short Term Assets	(465)	150	0	0
Transfer of Funds	0	(161)	0	0
Balance at 31 July 2003	2,138	2,691	0	0
Composed of :-				
Fixed Interest Stocks	306	310	0	0
Equities	923	1,007	0	0
Short Term Assets	909	1,374	0	0
Total Endowment Asset Investments	2,138	2,691	0	0
Fixed Interest and Equities at Cost	1,167	1,351	0	0

notes to the accounts

(continued)

12. DEBTORS

	Consolidated		University	
	2003 £000	2002 reanalysed £000	2003 £000	2002 reanalysed £000
Amounts falling due within one year:				
Trade Debtors	12,215	12,449	9,889	10,876
VAT and Other Taxes	2,977	2,157	34	872
Amounts owed by group undertakings	0	0	3,330	10,456
Prepayments and accrued income	11,170	10,467	10,647	10,264
Short Term Loans	135	125	135	125
Amounts falling due after one year:				
Debtors and prepayments	1,268	1,391	1,268	1,391
Amounts owed by group undertakings	0	0	13,217	6,296
	27,765	26,589	38,520	40,280

13. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	Consolidated		University	
	2003 £000	2002 reanalysed £000	2003 £000	2002 reanalysed £000
Mortgages and Unsecured Loans	1,399	1,505	1,399	1,399
Payments Received in Advance	23,987	17,991	23,788	17,893
Trade Creditors	9,914	6,925	8,347	6,132
Social Security and Other Taxation Payable	3,491	2,805	2,680	2,482
Accruals	12,474	5,788	9,284	4,111
Amounts owed to group undertakings	0	0	5,356	8,793
Other Creditors	1,777	2,096	0	0
	53,042	37,110	50,854	40,810

14. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	Consolidated		University	
	2003 £000	2002 £000	2003 £000	2002 £000
Mortgages secured on residential and other property	22,869	24,118	22,869	24,118
Unsecured loans	1,889	2,040	1,889	2,040
Other Creditors	337	432	0	0
Amounts owed to group undertakings	0	0	10,295	10,751
	25,095	26,590	35,053	36,909

notes to the accounts

(continued)

15. FINANCIAL INSTRUMENTS AND BORROWINGS

The University's borrowings are in respect of certain student and staff residences. The University takes professional advice on the hedging of interest rates on its borrowings, with a view to reducing the risk of unexpected increases in finance costs. It therefore makes decisions to fix or hedge through the use of interest rate swaps, or caps the rates on certain borrowings from time to time.

At 31 July 2003 the consolidated borrowings are analysed as follows:

(a) Borrowings analysed by maturity date

	Total	Totally Repayable		
		Between one and two years	Between two and five years	After five years
	£000	£000	£000	£000
Amounts falling due within one year (note 13):				
Mortgages and Unsecured Loans	1,399	0	0	1,399
Amounts falling due after more than one year (note 14):				
Mortgages secured on residential and other property	22,869	0	0	22,869
Unsecured Loans	1,889	0	0	1,889
Total borrowing	26,157	0	0	26,157

This note shows the expected dates of final capital repayments.

(b) Borrowings analysed by interest rate after taking account of various financial instruments

	Total	Capped and Floating	Fixed Borrowings		
			Principal	Weighted Average Interest	Weighted Average Period
	£000	£000	£000	Interest	Years
Secured Loans	24,117	8,436	15,681	7.20%	7.33
Unsecured Loans	2,040	2,040	0	0.00%	0.00
	26,157	10,476			

Secured loans are secured on the residential property to which the borrowing relates. Capped and floating rate borrowings bear interest based on LIBOR.

notes to the accounts

(continued)

16. PROVISIONS FOR LIABILITIES AND CHARGES

	University and Consolidated £000
Early retirements provision	
At 1 August 2002	838
Utilised in Year	(527)
Transferred from Income & Expenditure Account	106
	<hr/>
At 31 July 2003	417
	<hr/> <hr/>

17. DEFERRED CAPITAL GRANTS

	Consolidated			University		
	Total	Funding Council	Other Grants & Benefactions	Total	Funding Council	Other Grants & Benefactions
	£000	£000	£000	£000	£000	£000
At 1 August 2002:						
Buildings	31,754	17,179	14,575	26,588	17,179	9,409
Equipment	2,808	584	2,224	2,807	584	2,223
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	34,562	17,763	16,799	29,395	17,763	11,632
Cash Received:						
Buildings	7,316	6,434	882	6,815	6,396	419
Equipment	5,170	2,748	2,422	4,782	2,748	2,034
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	12,486	9,182	3,304	11,597	9,144	2,453
Released to Income & Expenditure:						
Buildings (Notes 1, 3 & 4)	1,913	1,771	142	1,786	1,733	53
Equipment (Notes 1, 3 & 4)	1,643	366	1,277	1,565	366	1,199
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total (Note 8)	3,556	2,137	1,419	3,351	2,099	1,252
At 31 July 2003:						
Buildings	37,157	21,842	15,315	31,617	21,842	9,775
Equipment	6,335	2,966	3,369	6,024	2,966	3,058
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	43,492	24,808	18,684	37,641	24,808	12,833
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

notes to the accounts

(continued)

18. ENDOWMENTS

	Consolidated
	£000
At 1 August 2002	2,691
Additions	227
Appreciation of Endowment Asset Investments	6
Income for Year	76
Transferred to Income & Expenditure Account	(862)
	2,138

19. RESERVES

	Income and Expenditure Consolidated	University
	£000	£000
Balance at 1 August 2002	86,462	73,846
Surplus after Depreciation of Assets at Cost and Tax	4,719	3,044
	91,181	76,890

20. INCOME AND EXPENDITURE ACCOUNT RESERVES

	2003	2002
	£000	£000
Committed Reserves:		
Academic Departmental Funds	15,341	10,489
Other Departmental Funds	2,314	3,470
Long Term Maintenance Provision	2,132	1,900
Residential Renewals Fund	1,899	1,739
Other Renewals Funds	1,036	1,112
Other Committed and Earmarked Reserves	724	1,694
	23,446	20,404
Other Reserves	67,735	66,058
	91,181	86,462

notes to the accounts

(continued)

21. LEASE OBLIGATIONS

	Consolidated		University	
	2003	2002	2003	2002
	£000	£000	£000	£000
Operating lease commitments in respect of buildings for the 2003 financial year, on leases expiring:				
Within one year	0	0	0	0
Between one and five years	23	23	0	0
Over five years	1,715	1,223	491	0
	1,738	1,246	491	0

22. CAPITAL COMMITMENTS

	Consolidated		University	
	2003	2002	2003	2002
	£000	£000	£000	£000
Commitments contracted at 31 July	22,577	7,669	20,192	7,669
Authorised but not contracted at 31 July	41,792	40,087	41,792	25,775
	64,369	47,756	61,984	33,444

23. RECONCILIATION OF CONSOLIDATED OPERATING SURPLUS TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2002/03	2001/02
	£000	£000
Surplus before tax	4,731	5,201
Depreciation (Note 9)	8,973	7,423
Loss / (Gain) on Disposal of Tangible Fixed Assets	859	(52)
Deferred Capital Grants Released to Income (Note 17)	(3,556)	(2,839)
Short Term Investment Income (Note 5)	(942)	(914)
Interest Payable	1,728	1,908
Decrease / (Increase) in Stocks	40	(316)
(Increase) / Decrease in Debtors	(1,176)	2,475
Increase in Creditors	15,943	1,663
(Decrease) / Increase in Provisions	(421)	41
	26,179	14,590

notes to the accounts

(continued)

24. RETURNS ON INVESTMENTS AND SERVICING OF FINANCE	2002/03	2001/02
	£000	£000
Income from Endowments (Note 18)	76	102
Income from Short Term Investments (Note 5)	942	914
Interest Payable (Note 7)	(1,728)	(1,908)
	(710)	(892)

25. CAPITAL EXPENDITURE AND FINANCIAL INVESTMENT	2002/03	2001/02
	£000	£000
Tangible Assets Acquired (Note 9)	(34,953)	(15,414)
Disposal of Tangible Assets (Note 9)	0	52
Investments Acquired (Note 10)	(2)	54
Endowment Asset Investments Acquired (Note 11)	(44)	(64)
Total Fixed and Endowment Asset Investments Acquired	(34,999)	(15,372)
Receipts from Sales of Endowment Assets (Note 11)	138	165
Deferred Capital Grants Received (Note 17)	12,486	5,840
Endowments Received (Note 18)	227	246
Endowments transferred to Income and Expenditure Account (Note 18)	(862)	(299)
	(23,010)	(9,420)

26. ANALYSIS OF CHANGES IN NET FUNDS / (DEBT)	At	Cash	At
	1 August 2002	Flows	31 July 2003
	£000	£000	£000
Cash at Bank and in Hand	12,403	1,418	13,821
Short-Term Deposits	9,000	0	9,000
Endowment Assets (Note 11)	1,374	(465)	909
Debt due within one year (Note 13)	(1,505)	106	(1,399)
Debt due after one year (Note 14)	(26,158)	1,400	(24,758)
Net (Debt)	(4,886)	2,459	(2,427)

notes to the accounts

(continued)

27. ANALYSIS OF CHANGES IN CONSOLIDATED FINANCING

	Total	Finance	Mortgages
	£000	Leases £000	& Loans £000
Balances at 1 August 2001	29,476	386	29,090
New Leases / Loans	0	0	0
Capital Repayments	(1,813)	(386)	(1,427)
Net Amount Acquired in Year	(1,813)	(386)	(1,427)
Balances at 31 July 2002	27,663	0	27,663
New Leases / Loans	0	0	0
Capital Repayments	(1,506)	0	(1,506)
Net Amount Acquired in Year	(1,506)	0	(1,506)
Balances at 31 July 2003	26,157	0	26,157

28. PENSION SCHEMES

Universities Superannuation Scheme (USS)

The University participates in the USS, which is a funded defined benefit pension scheme where contributions are held in trust separately from the University. The main results and assumptions of the most recent valuation of the USS are as follows:

Latest actuarial valuation date	31 March 2002
Valuation method	Projected Unit
Value of notional assets	£19,938 million
Funding level from accrued benefits	101.0%
Investment return per annum (past service and future service respectively)	5.0%, 6.0%
Salary scale increases per annum	3.7%
Pension increases per annum	2.7%

The contributions payable by the University during the accounting period were equal to 14% of total pensionable salaries. The pensions charge recorded by the University during the accounting period was equal to the contributions payable, taking into account benefit improvements subsequent to the valuation and the spreading of surplus over future service lives of employees.

notes to the accounts

(continued)

28. PENSION SCHEMES - continued

FRS 17

The USS is a multi-employer scheme where the share of assets and liabilities applicable to each employer is not identified. The University will therefore account for its pension costs on the defined contribution basis as permitted by FRS 17.

University of Warwick Pension Scheme (UWPS)

The University operates a defined benefit scheme in the UK. University contributions are charged to the income and expenditure account so as to spread the cost of pensions over employees' working lives with the University. The contributions are determined by an independent qualified actuary on the basis of triennial valuations using the projected unit method.

The most recent valuation was performed as at 5 April 2001. The principal assumptions adopted were future investment returns of 6.25% per annum pre-retirement and 5.5% post-retirement, salary increases of 4.25% per annum and pension increases of 2.25% per annum for pensions subject to limited price indexation, with assets measured at market value. The valuation showed that the market value of the scheme's assets was £52,143,000 at 5 April 2001 and that these assets represented 108% of the benefits that had accrued to members on these assumptions.

An updated assessment of the Scheme's funding position was undertaken by the Scheme Actuary in May 2003. This showed that a deficit had arisen and the Scheme's funding level had worsened to approximately 84% using the same assumptions as adopted for the 5 April 2001 valuation. This updated assessment has been used to calculate the pension charge for these accounts.

Company contributions are presently paid at the rate of 14% of pensionable salaries. An additional contribution of £1 million was paid in July 2003 towards funding the deficit disclosed in the May 2003 updated assessment.

The pension cost for the Scheme was £3.3 million (2002 £2.1 million). There was a provision of £nil (2002 £nil) in the balance sheet representing the difference between the amount charged in the income and expenditure account and the amount paid into the scheme.

The major assumptions used by the actuary (in nominal terms) for the 31 July 2003 and 31 July 2002 updates were:

	2003 update	2002 update	2001 valuation
Rate of increase in salaries	4.70%	4.50%	4.25%
Rate of increase of pensions in payment	*2.70%	*2.50%	2.25%
* some pensions have guaranteed 3% increases			
Rate of increase in deferred pensions	2.70%	2.50%	2.25%
Discount rate	5.50%	6.00%	6.00%
Rate of inflation	2.70%	2.50%	2.25%

notes to the accounts

(continued)

28. PENSION SCHEMES - continued

If the Pension Scheme had been recognised in these financial statements the following assets and liabilities would have appeared in the Balance Sheet:

	2003 £000	2002 £000
Value of assets		
- Equities	40,028	33,656
- Bonds and cash	12,110	12,212
Total market value of assets	52,138	45,868
Value of liabilities	(67,180)	(54,195)
(Deficit) in scheme	(15,042)	(8,327)
Related deferred tax liability	0	0
Net pension (deficit)	(15,042)	(8,327)

Had the following been recognised in the financial statements, the University's net assets and revenue reserves would have been as follows:

	2003 £000	2002 £000
Net assets excluding pension liability	136,840	123,732
Pension liability	(15,042)	(8,327)
	121,798	115,405
	2003 £000	2002 £000
Income and expenditure reserve excluding pension liability	91,181	86,462
Pension reserve	(15,042)	(8,327)
Income and expenditure reserve	76,139	78,135
	2002/03 £000	2001/02 £000
Service cost	2,567	2,140
Past service cost	0	0
Total operating charge	2,567	2,140

notes to the accounts

(continued)

28. PENSION SCHEMES - continued

Analysis of net return on pension scheme	2003	2002
	£000	£000
Expected return on pension scheme assets	3,527	3,948
Interest on pension liabilities	(3,304)	(2,993)
Net return	223	955
<hr/>		
Analysis of the amount recognised in the Statement of Total Recognised Gains and Losses	2002/03	2001/02
	£000	£000
Actual return less expected return on assets	99	(12,775)
Experience gains and losses on liabilities	45	(57)
Changes in assumptions	(7,847)	0
Actuarial (loss)	(7,703)	(12,832)
Adjustment due to surplus cap	0	0
Net (loss) recognised	(7,703)	(12,832)
<hr/>		
Movement in (liability) during the year	2002/03	2001/02
	£000	£000
(Deficit) / Surplus in scheme at 1 August	(8,327)	3,600
Movement in year:		
Current service cost	(2,567)	(2,140)
Contributions	3,332	2,090
Past service costs	0	0
Net return on assets	223	995
Actuarial (loss)	(7,703)	(12,832)
(Deficit) in scheme at 31 July	(15,042)	(8,327)
<hr/>		
History of experience of gains and losses	2002/03	2001/02
	£000	£000
Actual return less expected return on scheme assets	99	(12,775)
% of scheme assets:	0.2%	(27.9%)
Experience gains and losses on liabilities	45	(57)
% of scheme liabilities:	0.1%	(0.1%)
Changes in assumptions:	(7,847)	0
Total amount recognised in statement of total recognised gains and losses	(7,703)	(12,832)
% of scheme liabilities:	(11.5%)	(23.7%)

notes to the accounts

(continued)

28. PENSION SCHEMES - continued

The University's contribution to the various schemes in the years 2002/03 and 2001/02 were:

	2002/03 £000	2001/02 £000
Universities Superannuation Scheme (USS)	7,565	6,939
University of Warwick Pension Scheme (UWPS)	3,271	2,172
Local Government Superannuation Scheme (LGSS)	14	13
National Health Service Pensions Agency (NHSPA)	38	15
Others	48	38
	10,936	9,177

Due to the low value of contributions and small number of participants in LGSS and other schemes no disclosures have been made under FRS17 on the grounds of materiality.

29. SUBSIDIARY COMPANIES AND ASSOCIATED BODIES

The University owns 100% of the issued share capital of the following companies which are registered in England and operating in the UK, unless dormant as stated:

	No. of £1 Ordinary Shares
Warwick University Training Limited	4
Warwick University Services Limited	125,000
Warwick Retail Limited	1
Graduate Residences of Warwick Limited (Dormant)	3
Warwick Conferences Limited (Dormant)	2
The University of Warwick Press Limited (Dormant)	2
Warwick Learning Limited (Dormant)	200
Jobs for the Academic Community Limited (Dormant)	1

notes to the accounts

(continued)

29. SUBSIDIARY COMPANIES AND ASSOCIATED BODIES - continued

The University also holds 9,831 shares of £1 each (representing 35% of the total shares issued) in the University of Warwick Science Park Limited. This University investment and the results of this company have not been consolidated into the accounts of the University on the basis of materiality. This will be reviewed on an annual basis. The University also holds a 1% debenture loan of £820,710 in the company. This investment is considered to be a contingent asset and is therefore included in the accounts at nil value. This will be reviewed on an annual basis.

During the year, the University group of companies paid tenancy costs to the Science Park of £95k and reimbursed Science Park costs of £34k. The University recharged costs to the Science Park of £920k, mainly in relation to salaries. At the year end the University owed the Science Park £35,787 and the Science Park owed the University £81,052 for recharged costs. In May 2003 the University entered into a land swap agreement relating to the letting and development of land to the University of Warwick Science Park Limited and the letting of an adjacent plot back to the University. The future rent payable by the University under this agreement is disclosed within the figures in note 21.

The University is a co-guarantor of West Midlands Manufacturing Consortium Limited, a private company limited by guarantee. In the event of the company being wound up the University would be required to contribute £1 being 33.33% of the total guarantee. The results of this company have not been consolidated into the accounts of the University on the basis of materiality.

In addition, the consolidated accounts include the accounts of The University of Warwick Foundation, an exempt Charity, and its wholly owned subsidiary UW Construction Limited.

At 31 July 2003 the University held 51.0% of voting shares and 50.5% of non-voting shares in AdsFab Limited, being 153,000 £1 ordinary 'C' shares (non-voting) and 51 £1 ordinary 'A' shares (voting). The consolidated accounts include the accounts of AdsFab Limited.

30. RELATED PARTIES

Due to the nature of the University's operations and the composition of the University's Council (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

The University's Chair of Council, Mr John Leighfield, is a director and shareholder of RM plc, a company supplying software services and systems to the UK education sector. He holds 148,000 class 'A' ordinary shares being 0.16% of shares issued. The Southern Universities Purchasing Consortium tendered for and entered into a 3 year supply contract with RM plc on 1 April 2001. The contract has an option to extend for a further 12 months and is due for re-tender during 2004. In the financial year 2002/2003 the University spent £825,297 on goods and services supplied by RM plc.

Mr Brian Woods-Scawen, a senior partner in PricewaterhouseCoopers until 1 June 2003, is a member of Council and of the Audit Committee. During the year the University, under longstanding arrangements, paid £112,520 for VAT advice from PricewaterhouseCoopers. Mr Woods-Scawen was not personally involved in the advice to the University.

notes to the accounts

(continued)

31. CONTINGENT LIABILITY

The University has entered into four funding schemes which have subsequently been challenged by Customs and Excise. The consolidated accounts include debtors of £1,745,223 which have not yet been reimbursed by Customs and Excise as a result of this challenge. There are also amounts of £777,448 which have already been reclaimed which are subject to this challenge but £367,500 which has been paid over to Customs and Excise will be repayable in the event of a successful challenge. The University has taken advice and is confident that all the above amounts are recoverable. However, if the challenge should prove to be successful and other recovery methods are unsuccessful then these amounts will be capitalised.

32. ACCESS FUNDS

	2002/03	2001/02
	£000	restated £000
Opening fund balance	12	29
Funding Council grants received in year	488	537
Interest earned	5	7
	<hr/>	<hr/>
	505	573
Disbursed to students	(471)	(561)
	<hr/>	<hr/>
Balance Unspent at 31 July	34	12

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

33. TEACHER TRAINING AGENCY (TTA) STUDENT BURSARIES

	2002/03	2001/02
	£000	£000
Opening fund balance	133	37
Net Teacher Training Agency grants received in year	2,015	1,989
	<hr/>	<hr/>
	2,148	2,026
Disbursed to students	(1,990)	(1,856)
Administration fee	(38)	(37)
	<hr/>	<hr/>
Balance Unspent at 31 July owing to the Teacher Training Agency	120	133

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

notes to the accounts

(continued)

34. POST BALANCE SHEET EVENTS

National Grid House

The University has acquired the former headquarters of National Grid plc for a consideration of £17.6 million. A loan of £10 million was drawn down on 19 November 2003 for this purpose. This loan is secured by a legal charge on the property.

Horticulture Research International

The University is in negotiations with the Department for the Environment, Food and Rural Affairs about the future of HRI Wellesbourne and Kirton. These negotiations to preserve the research and development work of HRI Wellesbourne and Kirton by a merger with the University are well advanced. This merger is expected to take place on 1 April 2004.

Heronbank Residences

A £10 million loan was drawn down on 20 October 2003 to finance this project. This loan is secured by a legal charge on the Heronbank residences.

35. CONSOLIDATED FIVE YEAR RESULTS

	2002/03	2001/02	2000/01	1999/00	1998/99
	£000	reanalysed £000	£000	restated £000	restated £000
Income					
Funding Council Grants	55,545	50,591	46,513	44,568	44,218
Academic Fees & Support Grants	57,706	49,353	42,262	39,442	37,422
Research Grants & Contracts	30,357	28,057	26,316	25,090	25,177
Other Operating Income	67,531	62,337	58,130	54,494	52,732
Endowment Income & Interest Receivable	1,643	1,141	1,230	1,701	1,704
Total Income	212,782	191,479	174,451	165,295	161,253
Expenditure					
Staff Costs	109,463	99,539	92,881	87,214	80,323
Depreciation	8,973	7,423	6,748	6,538	6,233
Other Operating Expenses	87,887	77,408	68,470	64,620	67,902
Interest Payable	1,728	1,908	2,410	2,244	1,962
Total Expenditure	208,051	186,278	170,509	160,616	156,420
Equity Minority Interest	(12)	135	0	0	0
Operating Surplus	4,719	5,336	3,942	4,679	4,833

notes to the accounts

(continued)

35. CONSOLIDATED FIVE YEAR RESULTS (continued)

	2002/03	2001/02	2000/01	1999/00	1998/99
	£000	reanalysed £000	£000	restated £000	restated £000
Assets					
Fixed Assets	161,592	136,469	128,676	117,359	113,956
Endowment Asset Investments	2,138	2,691	2,981	3,254	2,899
Current Assets	51,664	49,110	47,711	42,510	38,565
Liabilities					
Current Liabilities	53,042	37,110	34,689	28,535	27,530
Long Term Liabilities	25,095	26,590	28,079	29,938	25,695
Provisions	417	838	797	223	366
Net Assets	136,840	123,732	115,803	104,427	101,829
Capital Expenditure					
Land & Buildings	26,329	8,945	13,990	8,159	15,196
Plant, Machinery & Equipment	8,624	6,469	3,920	1,854	2,983
	34,953	15,414	17,910	10,013	18,179

indicators of financial health

	2002/03	2001/02 reanalysed	2000/01	1999/00 restated	1998/99 restated	
INDICATORS RELATING TO SOURCES OF INCOME						
(a)	% Ratio of Total HEFCE & TTA Grants to Total Income	26.10%	26.42%	26.66%	26.96%	27.42%
(b)	% Ratio of Total Full time Home & EC Fees to Total Income	5.87%	6.24%	6.68%	6.74%	6.54%
(c)	% Ratio of Total Overseas Student Fees to Total Income	7.20%	7.20%	6.78%	6.23%	6.26%
(d)	% Ratio of Total Research Grant and Contract Income to Total Income	14.27%	14.65%	15.09%	15.18%	15.61%
(e)	% Ratio of Total Other Services Rendered Income to Total Income	2.95%	3.87%	3.99%	6.46%	5.58%
(f)	% Ratio of Total Residences and Catering Income to Total Income	9.63%	10.79%	10.74%	10.87%	10.02%
(g)	% Ratio of Total all Other Income to Total Income	33.98%	30.82%	30.07%	27.56%	28.57%
(h)	% Ratio of Surplus/(Deficit) to Total Income	2.22%	2.79%	2.26%	2.83%	3.00%
INDICATORS RELATING TO FINANCIAL STRENGTH						
(i)	Days Ratio of General Funds to Total Expenditure	159.97	169.42	173.95	175.71	169.49
(j)	% Ratio of Long Term Liabilities to Total General Funds	27.98%	31.72%	35.53%	39.01%	35.88%
INDICATORS RELATING TO SHORT TERM LIQUIDITY AND SOLVENCY						
(k)	Ratio of Liquid Assets to Current Liabilities	0.43	0.58	0.55	0.59	0.58
(l)	Days Ratio of Net Liquid Assets to Total Expenditure	40.04	41.94	40.52	34.86	32.40
(m)	Ratio of Current Assets to Current Liabilities	0.97	1.32	1.38	1.49	1.41
(n)	Days Ratio of Increase/(Decrease) in Cash & Liquid Resources to Total Expenditure	2.49	4.85	4.63	3.62	0.63
(o)	Days of Total Income represented by Debtors	47.63	50.68	58.55	54.69	51.51
(p)	Days of Total Expenditure represented by Creditors	93.06	72.71	74.26	64.85	64.24