

Company No: 173485
Charity Registration No: 211581

Horticulture Research International

(A Company Limited by Guarantee)

Annual Report

Year ended 31 March 2003



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COMPANY INFORMATION

Board of Directors	Current members Mr P J Siddall (Chairman) Dr A R Burne (retired 30 June 2003) Professor J C Gray (retired 30 June 2003) Mr D W Henderson Mr A G Jeffries (retired 30 June 2003) Professor J M Lenné Professor P Meyer Mr M R A Paske Mr D J T Piccaver Mr M W Rowe
Chief Executive	Professor T M A Wilson FRSE
Secretary	Mr R J Goodwin
Registered office	Wellesbourne Warwick CV35 9EF
Registered number	173485
Charity Registration number	211581
Auditors	RSM Robson Rhodes LLP Chartered Accountants Centre City Tower 7 Hill Street Birmingham B5 4UU
Bankers	The Royal Bank of Scotland plc Birmingham
Solicitors	DLA Birmingham

REPORT OF THE DIRECTORS

The directors present their annual report and the audited financial statements for the year ended 31 March 2003.

Status and principal activities of the Company

The Company is limited by Guarantee and has charitable status. It is an Executive Non-Departmental Public Body operating towards Next Steps lines, originally sponsored by the Ministry of Agriculture, Fisheries and Food (MAFF) – from June 2001 subsumed into the Department for Environment, Food and Rural Affairs (Defra) – and regulated by a Management Statement agreed with Defra. HRI's purpose is to carry out research and development (R&D) work in support of horticulture and related industries and to exploit the results commercially. The Company is managed by a Chief Executive who reports to a non-executive Board of Directors.

Business performance and corporate strategy

The total general fund income fell in comparison with the previous year by 2.56% before amortisation of capital grants.

Defra commission receipts during the year, ignoring inflation, fell by 10.74%, decreasing by £979k to £8,139k, however overall Defra funding remained static as the reduction in commission receipts was offset by a support grant of £1,000k and non-commissioned grants rose, by £5k to £1,278k. Year on year BBSRC core funding has fallen by £183k. BBSRC finances research and development through a Competitive Strategic Grant (CSG) which is reviewed every four years. This review takes the form of an Institute Assessment Exercise which was carried out in October 2001 and as a result HRI was awarded a 3% per annum increase in CSG from April 2002. Payment of the increase in CSG was deferred to April 2003 due to financial considerations at BBSRC and resulted in HRI receiving £254k less than anticipated in the year ended 31 March 2003. Income from commercial contracts with other public bodies, including Levy funders and the EC, has decreased by 3.24% to £3,766k and research and other sales commissioned by the commercial sector have decreased by £345k to £1,021k.

Expenditure has decreased by £657k to £22,051k before exceptional items and impairment provision. Staff costs have fallen by £218k due to the introduction of a freeze on recruitment to all but the most essential posts. Operating and running costs have also decreased by £95k and £440k respectively. Although the decrease in expenditure is significant HRI has made a deficit for the year of £396k (2002: £569k).

Two major construction projects were undertaken during the year. A new Conference Centre at East Malling was completed in July 2002 and work was started on a new Genomics Resource Centre at Wellesbourne. The new Genomics Resource Centre, including a fully equipped state-of-the-art Genomics laboratory, is due for completion in June 2003. The principal aims of the project are twofold: (1) to retain HRI's position at the forefront of rapidly developing genomic and post-genomic technologies relevant to horticultural crops, pests and pathogens; and (2) to upgrade and extend HRI's international collection of vegetable seeds (germplasm). Both projects are being funded (circa £2.5m each) through Defra from the government's Capital Modernisation Fund and in the case of the Conference Centre with £0.5m additional support from East Malling Trust for Horticultural Research.

The Report from the Quinquennial Review Team was published on 23 September 2002 and was followed by a period of consultation with HRI's various stakeholders. Following the consultation period, the QR Team produced an addendum to their initial Report (available on the Defra website at www.Defra.gov.uk). On 20 January 2003, the Minister for Food, Farming and Sustainable Energy, Lord Whitty, announced his conclusions on the future of Horticulture Research International (HRI) in light of the Defra-commissioned Quinquennial Review. HRI's Board and Senior Management welcomed the Minister's statement outlining his vision for the future of HRI.

The Minister's announcement paved the way for preliminary negotiations between Defra and the University of Warwick for the merger with a "New HRI". A formal Ministerial announcement on 14 July 2003 has confirmed that agreement has now been reached between Defra and the University of Warwick over the future of HRI at Wellesbourne and Kirton. The merger, recommended by the independent QR team, is expected to take place on 1 April 2004, but is subject to continuing negotiations and a formal transfer agreement. Given the contingent nature of this transaction at the date of approval of the Annual Report, the financial statements have been prepared on the basis that HRI continues in its current form.

REPORT OF THE DIRECTORS

(continued)

Negotiations are continuing between Defra and the East Malling Trust for Horticultural Research (EMTHR) regarding the establishment of East Malling and Wye as an independent research station. The independent QR team also recommended that HRI Efford should close, and the University of Warwick has indicated that it does not wish to acquire the site. After careful consideration, Defra and HRI have concluded that Efford should close in October 2003. In the context of premature closure of the Efford site, the directors of HRI have recognised an impairment provision against building assets on the site. This is reflected in the year end fixed asset value, and there has also been a transfer of the corresponding value within the unamortised capital grant fund within restricted funds.

The QR Team Report addendum also clarifies and emphasises their recommendation that the proposed £5 million per annum, 4-year Defra contract for a broadly agreed programme of strategic research in horticulture, is to be reviewed and renewed on a rolling 4-year schedule – in parallel with the 4-year BBSRC Competitive Strategic Grant.

The new structures should be in place by 1 April 2004. Defra will provide HRI with sufficient financial support to maintain a positive cashflow and enable breakeven for the 2003/04 financial year.

Additional information regarding performance of HRI is included within the HRI Annual Report, which is presented along with this Annual Report.

Reserves policy

Notes 14 and 15 to the financial statements describe the various reserves of the Company and summarise the year's movement on each fund.

Restricted funds reflect grants received and receivable for specific purposes and are only used to support expenditure for that purpose. Restricted funds have decreased during the year by £2,831k to £37,720. A small deficit in 'other' restricted funds of £166,000 (2002: £246,000) reflects amounts due from Defra for restructuring as per a pre-agreed receipts schedule.

Designated funds are allocated from operating surpluses and have been created to support future expenditure on larger projects that do not have specific grant funding and to meet future operating deficits where necessary. Designated funds have decreased during the year by £396k to £1,648k.

General funds are free reserves, which are not specified for a particular purpose but support the working capital requirements of the Company. General funds have remained unchanged during the year at £710k.

Financial performance

The statement of financial activities is shown on page 8 and the summary income and expenditure account on page 8. The net assets and funds are shown on the balance sheet on page 9 and the cash flows of the Company are set out on page 11. The notes to the financial statements on pages 12-26 provide additional detail to these primary statements.

Fixed assets

Movements in tangible fixed assets are set out in note 6 to the financial statements.

Directors

The directors are set out on page 1.

Employees

During the year the Company has continued to provide employees with relevant information and to seek their views on matters of common concern through their representatives and through line managers. Priority is given to ensuring that employees are aware of all significant matters affecting the Company's position and of any significant organisational changes.

REPORT OF THE DIRECTORS
(continued)

Employees (continued)

The Company is aware of its statutory duty to support the employment of disabled persons where possible, both in recruitment and by retention of employees who become disabled whilst in the employment of the Company, as well as generally through training and career development.

The Company is an equal opportunities employer.

Payment of creditors

It is the Company's policy that payment to suppliers is made in accordance with the terms and conditions under which the business transactions with the suppliers are conducted, providing the supplier is complying with all terms and conditions.

The Company's trade creditors at 31 March 2003 were equivalent to 43 days (2002 - 38 days) of purchases.

Single European currency

The Company's accounting system is capable of accommodating the euro regardless of which countries participate in the single currency.

Citizens Charter and Open Government

The Company does not provide services directly to the public. It conducts its business on a customer/contractor relationship, voluntarily entered into by both parties.

Access to Government Information

HRI is not within the jurisdiction of the Parliamentary Commissioner for Administration (PCA). Its policies and objectives are set out in its Corporate Plan with results being made available in its Annual Report.

Statement of directors' responsibilities for the Annual Report

Company law in the United Kingdom requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Charitable Company and of its financial activities and income and expenditure for the year. In preparing these financial statements, the directors have:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that are reasonable and prudent;
- followed applicable United Kingdom accounting standards and the Statement of Recommended Practice, Accounting by Charities, and;
- prepared the financial statements on the going concern basis.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for ensuring that the directors' report and other information included in the Annual Report is prepared in accordance with company law in the United Kingdom.

Under the Management Statement of the Company, the Accounting Officer of the Company (who is the Chief Executive) is responsible to the Accounting Officer of the Department for Environment, Food and Rural Affairs and accountable to Parliament for the proper and effective management of all public funds spent by the Company.

REPORT OF THE DIRECTORS
(continued)

Auditors

On 3 May 2003, the auditors, RSM Robson Rhodes, transferred their entire business to RSM Robson Rhodes LLP, a limited liability partnership incorporated under the Limited Liability Partnership Act 2000. This transfer arrangement satisfies the criteria set out within section 26, paragraph (4) of the Companies Act 1989.

A resolution to re-appoint RSM Robson Rhodes LLP as auditors will be proposed at the Annual General Meeting.

Approval

The report of the directors was approved by the Board on 31 July 2003 and signed on its behalf by:



P J SIDDALL
Chairman

STATEMENT ON INTERNAL CONTROL

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of HRI's aims and objectives, whilst safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting.

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

The system of internal control is based on an ongoing process designed to identify the principal risks to the achievement of HRI's aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. I expect to have the procedures in place by March 2004 necessary to implement Treasury guidance. This takes account of the time needed to fully embed the processes which the Board has agreed should be established and improve their robustness.

We have held a risk management workshop, attended by the senior management team (EXCOM), during which we identified the Company's objectives and risks and determined a control strategy for each of the significant risks. Further risk management workshops for all grades of staff will be held during the year.

Risk management and internal control will be considered on a regular basis by EXCOM and the Board during the year. Risk management has been incorporated more fully into the corporate planning and decision making processes of the Company.

The Audit & Accounts Committee regularly reviews the risk management framework and receives reports on the business critical projects within HRI and reports to the Board on any issues of concern. The current business critical projects are:

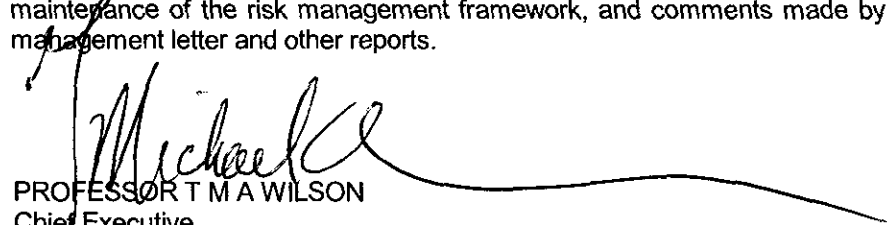
1. Implementation of Quinquennial Review Recommendations
2. Quality Assurance Standards for Research
3. Establishment of Genomics Resource Centre

In addition to the actions mentioned above, in the coming year the Company plans to:

- arrange a regular programme of facilitated workshops to identify and keep up-to-date the record of risks facing the organisation;
- introduce a programme of risk awareness training;
- establish a system of key performance and risk indicators; and
- further develop and maintain an organisation-wide risk register.

Horticulture Research International contracts RSM Robson Rhodes LLP to provide an internal audit unit, which operates to the Government Internal Audit Standards. They submit regular reports which include their independent opinion on the adequacy and effectiveness of HRI's system of internal control, together with recommendations for improvement.

My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within HRI who have responsibility for the development and maintenance of the risk management framework, and comments made by the external auditors in the management letter and other reports.



PROFESSOR T M A WILSON
Chief Executive
31 July 2003

**INDEPENDENT REPORT OF THE AUDITORS
TO THE MEMBERS OF HORTICULTURE RESEARCH INTERNATIONAL**

We have audited the financial statements on pages 8 to 26.

This report is made solely to the Company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members 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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors (who also act as trustees for the charitable activities of the Company) are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board and by 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 Companies Act. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the charitable Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the charitable Company is not disclosed.

We review whether the Chief Executive's statement on page 6 reflects HRI's compliance with those matters specified for our review in the DAO letter "Corporate Governance: Statement on the system of internal financial control ("DAO (GEN) 13/97" and "DAO 4/99")" and we report if it does not. We are not required to consider whether the Board's statement on internal control covers all risks and controls, or form an opinion on the effectiveness of the charitable Company's corporate governance procedures or its risk and control procedures. We read the other information contained in the Annual Report, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the charitable Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the charitable Company's state of affairs as at 31 March 2003 and of its incoming resources and application of resources, including its income and expenditure, for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Birmingham, England
31 July 2003

STATEMENT OF FINANCIAL ACTIVITIES
for the year ended 31 March 2003

	General funds £'000	Designated funds £'000	Restricted funds £'000	2003 Total funds £'000	2002 Total funds £'000
Incoming resources					
Defra commission/grants	9,139	-	2,590	11,729	11,219
BBSRC grants	3,071	-	-	3,071	3,254
Commercial research income					
- Defra open & LINK contracts	1,278	-	-	1,278	1,273
- HDC	698	-	-	698	1,205
- Other	4,089	-	-	4,089	4,052
Other receipts	1,545	-	414	1,959	1,438
Total incoming resources (note 2)	19,820	-	3,004	22,824	22,441
Resources expended					
Direct charitable expenditure	20,178	-	-	20,178	23,534
Fund raising and publicity	206	-	-	206	179
Management and administration	1,667	-	-	1,667	1,887
Impairment provision (note 6)	4,000	-	-	4,000	-
Total resources expended (note 3)	26,051	-	-	26,051	25,600
Net outgoing resources before transfers	(6,231)	-	3,004	(3,227)	(3,159)
Transfers between funds					
Capital grants received grant fund					
- amortisation	1,835	-	(1,835)	-	-
- impairment transfer	4,000	-	(4,000)	-	-
- absorption of deficit	396	(396)	-	-	-
Total transfers (note 13)	6,231	(396)	(5,835)	-	-
Net outgoing resources	-	(396)	(2,831)	(3,227)	(3,159)
Net movement in the year	-	(396)	(2,831)	(3,227)	(3,159)
Fund balances at 1 April 2002	710	2,044	40,551	43,305	46,464
Fund balances at 31 March 2003	710	1,648	37,720	40,078	43,305

HORTICULTURE RESEARCH INTERNATIONAL

SUMMARY INCOME AND EXPENDITURE ACCOUNT for the year ended 31 March 2003

	Note	2003 £'000	2002 £'000
Gross income from continuing operations		25,655	22,139
Total expenditure for continuing operations		(26,051)	(22,708)
		<hr/>	<hr/>
Net deficit for the year	4	(396)	(569)
		<hr/>	<hr/>

RECONCILIATION OF NET DEFICIT TO NET OUTGOING RESOURCES FOR THE YEAR

Net deficit for the year	(396)	(569)
Capital grants deferred and released to income	(1,835)	(1,799)
Capital grants received	2,924	1,409
Capital grants received fund – release on impairment	(4,000)	-
Redundancy funding received	80	692
Redundancy expenditure	-	(2,892)
	<hr/>	<hr/>
Net outgoing resources for the year	(3,227)	(3,159)
	<hr/>	<hr/>

A more detailed analysis of income by source is provided in the Statement of Financial Activities.

The difference between the figure for total incoming resources on general funds and gross income from continuing operations is the capital grant deferred and released to income of £1.835 million and £4.0 million released from the Capital grant received Fund on impairment of related assets. The other items shown in the above reconciliation reflect receipts and payments which are recorded as part of the funds movements on the statement of financial activities but which are dealt with through balance sheet movements in preparing an income and expenditure account under the guidance of Companies Act 1985.

There were no recognised gains or losses other than those reported above.

HORTICULTURE RESEARCH INTERNATIONAL

BALANCE SHEET
at 31 March 2003

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	6	40,819	43,568
Investments	7	-	-
		<u>40,819</u>	<u>43,568</u>
Current assets			
Stocks	8	212	232
Debtors	9	2,622	3,686
Cash at bank and in hand		12,592	9,950
		<u>15,426</u>	<u>13,868</u>
Creditors: Amounts falling due within one year	10	(5,252)	(4,390)
		<u>10,174</u>	<u>9,478</u>
Net current assets			
		<u>10,174</u>	<u>9,478</u>
Total assets less current liabilities		50,993	53,046
Provisions for liabilities and charges	11	(10,915)	(9,741)
		<u>40,078</u>	<u>43,305</u>
Net assets	12		
		<u>40,078</u>	<u>43,305</u>
Income funds			
Restricted funds	14	37,720	40,551
Unrestricted funds:			
Designated funds	15	1,648	2,044
Other charitable funds	15	710	710
		<u>2,358</u>	<u>2,754</u>
	13	<u>40,078</u>	<u>43,305</u>

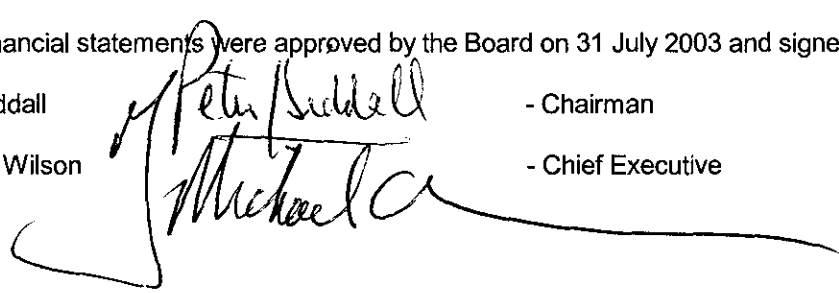
The financial statements were approved by the Board on 31 July 2003 and signed on its behalf by:

P J Siddall

- Chairman

T M A Wilson

- Chief Executive



HORTICULTURE RESEARCH INTERNATIONAL

CASH FLOW STATEMENT year ended 31 March 2003

	Note	2003 £'000	2002 £'000
Net cash inflow/(outflow) from operating activities	19	5,791	(595)
Returns on investments and servicing of finance			
Interest received		47	95
Capital expenditure and financial investment			
Payments for tangible fixed assets		(3,196)	(1,654)
Increase/(decrease) in cash	20	<u>2,642</u>	<u>(2,154)</u>

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

1. ACCOUNTING POLICIES

Convention

The financial statements are prepared under the historical cost convention in accordance with applicable accounting standards and the Statement of Recommended Practice (SORP 2000), Accounting by Charities.

The Company is an Executive Non-Departmental Public Body (NDPB) sponsored by the Department for Environment, Food and Rural Affairs (Defra). Defra has a significant influence on the results and financial position of the Company in that the Company receives significant income from Defra (via commission and commercial contracts) and also has access to other resources provided by Defra including:

- people employed by Defra but working for HRI
- lease of land from which HRI operate their sites
- general funding support as the sponsoring body

The requirements of the Treasury Guidance paper titled 'Annual reports and accounts guidance for Executive Non-Departmental Public bodies' are reflected by way of additional primary statements and notes which are set out on pages 30 to 34.

Basis of preparation

The format of the financial statements has been adapted from that laid down in Part 1 of Schedule 4 to the Companies Act 1985 to suit the circumstance of the Company as permitted by paragraph 3 (3) of that schedule.

The subsidiaries are not consolidated on the grounds of materiality as the Company is exempt by virtue of S229 of the Companies Act 1985 and paragraph 300(b) SORP 2000 from the requirement to prepare group accounts. These financial statements present information about the Company as an individual undertaking and not about its group

Income

Grants receivable from the Biotechnology and Biological Sciences Research Council (BBSRC) and the Commission from the Department for Environment, Food and Rural Affairs (Defra) are recognised in the statement of financial activities as received, exclusive of any relevant value added tax.

Research income from these and other bodies consists of the invoiced value (excluding value added tax) for work undertaken during the year or on the value of work performed for longterm contracts. Income arising on longterm contracts is recognised on the basis noted below.

Income from sales of produce, publications and sundry items consists of amounts invoiced during the year, excluding value added tax.

Expenditure

Expenditure is charged to the income and expenditure account and a liability is recognised thereafter as goods and services are received. The charge includes value added tax attributable to the expenditure, to the extent that value added tax is not reclaimable by the Company.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

1. ACCOUNTING POLICIES (Continued)

Resources expended

Resources expended are allocated on the basis of management and administration expenditure being all the costs of corporate services with the exception of the IT department and public relations. Fund raising and publicity expenditure includes the cost of PR, exhibitions and shows and Annual Report production.

Tangible fixed assets and depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write-off the cost (less any estimated residual value) of each asset evenly over its expected useful life, as follows:

Additions to leasehold land and buildings -	over 50 years
Plant and machinery, fixtures and fittings -	over 3-8 years

Where there is evidence of impairment, fixed assets are written down to their recoverable amount with a corresponding release of the associated unamortised Capital grant received fund where applicable. The cost and depreciation of all assets over ten years old are written off and removed from the fixed asset register.

Operating leases

Rentals payable under operating leases are charged to the Income and Expenditure account on a straight line basis.

Government grants

Government grants receivable for capital expenditure are credited to the restricted capital grants received fund in full on receipt. The grants are then released to the unrestricted funds of the company (and the income and expenditure account) over the expected useful lives of the relevant assets.

Grants of a revenue nature are credited to the restricted capital grants received fund in the year in which they are received.

Stocks

Stocks are stated at the lower of cost and net realisable value as follows:

Cost incurred in bringing each item to its present location and condition.

Raw materials and consumables -	purchase cost on a first-in, first-out basis
Growing crops -	cost of direct materials and labour plus attributable overheads.

Net realisable value is based on the estimated selling prices, less further costs expected to be incurred to completion and disposal.

Long-term contracts

Long-term contracts are those extending in excess of 12 months and any of a shorter duration in progress at 31 March which are material to the activity of the period. Attributable income is recognised proportionate to the percentage of completion of each contract. Immediate provision is made for all foreseeable losses if a contract is assessed as unprofitable.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

1. ACCOUNTING POLICIES (Continued)

Pensions

Superannuation benefits are provided for eligible employees of BBSRC on attachment to the Company under a scheme administered and financed by the BBSRC. Benefits for eligible employees of Defra on attachment to the Company are provided under the Principal Civil Service Pension Scheme. The Company pays an actuarially assessed Superannuation contribution for all attached employees, to both these schemes.

In accordance with the Financial Memorandum to the Company's Management Statement the Company also sets aside a Pensions Fund for the benefit of Company employees. The Company pays into the fund an appropriate level of superannuation contribution, which is equivalent to payments that would be made into the Principal Civil Service Pension Scheme in respect of eligible employees holding contracts of employment with the Company. The Company accumulates in the Fund net pension transfer values received/paid and pension payments made. This pension fund consists of a ring-fenced amount within the Cash and Bank balance, and the transfer obligation is represented by a balance within provisions in note 11. To this extent, this is not classified as a defined benefit pension scheme, and is therefore not subject to the additional disclosure requirements of Financial Reporting Standard 17.

The actuarial assessment of the potential liability in respect of a transfer into the Principal Civil Service Pension Scheme is set out in note 5.

The costs of all schemes to the Company for the year are included in note 5 under Employee costs.

Research and development

Research and development expenditure on externally funded commercial projects is matched with the related income. All other research and development expenditure is written off in the year it is incurred.

Foreign currencies

Assets and liabilities denominated in foreign currency are translated into sterling at the rates of exchange ruling at 31 March. All other currency differences are taken to the profit and loss account.

Taxation

The Company is a registered charity and therefore no corporation tax is payable on the results for the year.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

1. ACCOUNTING POLICIES (Continued)

Fund reserves

The Company operates three distinct forms of fund reserve:

- Restricted funds - reflects funding received which has been specifically allocated by the donor of the funds as being for a specific purpose and which will only be used to support expenditure made for that purpose.
- Designated funds - reflects funding received which has been allocated by the directors as being available for specific future expenditure of the Company to support larger projects, and to meet future operating deficits where necessary.
- General funds - reflects unrestricted funds not specified for a particular purpose.

2. INCOMING RESOURCES

	2003 £'000	2002 £'000
Incoming resources by geographical market		
United Kingdom	21,682	21,548
Other EU countries	905	718
Rest of the world	237	175
	22,824	22,441

3. RESOURCES EXPENDED

	Direct charitable expenditure £'000	Costs of generating funds £'000	Management and administration £'000	2003 Total £'000
Employee costs	11,861	98	1,170	13,129
General operational costs	6,387	96	494	6,977
Depreciation	1,930	12	3	1,945
Impairment provision	4,000	-	-	4,000
	24,178	206	1,667	26,051
	24,178	206	1,667	26,051
	14,880	102	1,232	16,214
General operational costs	6,812	71	652	7,535
Depreciation	1,842	6	3	1,851
	23,534	179	1,887	25,600
	23,534	179	1,887	25,600

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

4. NET DEFICIT FOR THE YEAR

	Year ended 31 March 2003 £'000	Year ended 31 March 2002 £'000
Net deficit for the year is stated		
After charging:		
Auditors' remuneration		
Audit services	26	30
Non audit services	36	21
Directors' remuneration (see note 5)	69	63
Directors' reimbursed expenditure (see note 5)	10	10
Depreciation of tangible fixed assets	1,945	1,851
Impairment provision	4,000	-
Operating lease charges		
Plant and machinery	38	37
Land and buildings	584	581
	<hr/>	<hr/>
And after crediting:		
Amortisation of capital grants	1,835	1,799
Release of capital grants on impairment	4,000	-
Rental income	218	202
Bank interest	47	95
Foreign exchange gains	33	5
	<hr/>	<hr/>

5. EMPLOYEES AND EMPLOYEE COSTS

	2003 Number	2002 Number
a) Average number of persons employed during the year:		
Direct science	241.5	300.5
Direct industrial/agricultural	111.5	124.0
Direct other support	103.5	133.0
Management and administration	20.5	24.5
	<hr/>	<hr/>
	477.0	582.0
	<hr/>	<hr/>

Of the 477 (2002: 582) staff of the Company, 203 (2002: 217) are employed by the BBSRC, 17 (2002: 42) by Defra, and 257 (2002: 323) by the Company.

	2003 £'000	2002 £'000
b) Costs in respect of all these staff were:		
Wages and salaries	11,077	11,262
Redundancy payments	-	2,867
Social security costs	724	764
Superannuation costs	1,328	1,321
	<hr/>	<hr/>
	13,129	16,214
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

5. EMPLOYEES AND EMPLOYEE COSTS (Continued)

- (c) The remuneration of the executive management team that served during the year to 31 March 2003 was as follows:

	Age	Salary	Real increase in pension at 60	Total accrued pension at 60 at 31/03/2003
		£'000	£'000	£'000
Professor T M A Wilson, Chief Executive	51	90 - 95	0 - 2.5	25 - 30
Mr R J Goodwin, Company Secretary	49	50 - 55	0 - 2.5	10 - 15
Dr D Gray, Head of East Malling (to 24/01/2003)	59	55 - 60	2.5 - 5.0	25 - 30
Mr D R Hartley, Head of Business Development	44	55 - 60	0 - 2.5	0 - 5
Professor G M Tatchell, Research Director	50	50 - 55	0 - 2.5	15 - 20
Professor P R Mills, Research Director	47	50 - 55	0 - 2.5	10 - 15
Mr D Temperley, Director of Finance	50	50 - 55	0 - 2.5	15 - 20
Professor B Thomas, Research Director	53	50 - 55	0 - 2.5	15 - 20

Pension

The pension noted above reflects the amounts paid into the company pension scheme during the year. HRI's pension scheme is a defined benefit scheme and there were 257 contributing members at 31 March 2003.

- (d) As stated in note 1, the Company sets aside in the Pensions superannuation fund an appropriate level of funding in respect of eligible employees holding contracts of employment with the Company. In respect of HRI's own pension arrangements, this consists of a ring-fenced cash balance and a corresponding liability within the provisions balance. Given that this is not a 'pension scheme', it is not currently subject to the additional disclosure requirements of FRS 17. As at the balance sheet date and as set out in notes 11 and 12, the pensions reserve fund amounted to £10.915m (2002 - £9.74m).

Contributions have been paid into the scheme during the year in accordance with the level proposed by the actuary. The directors consider that the fund established to meet any future pension transfer into the Principal Civil Service Pension Scheme is adequate.

An actuarial valuation of the Company's liability in respect of Horticulture Research International employees transferring into the Principal Civil Service Pension Scheme at a future date was commissioned as at 31 March 2003. The valuation was performed by the Government Actuary's Department (GAD). The results of this assessment indicated a maximum accrued pension liability of £10.87m in respect of the staff employed by the Company at that date. The demographic and economic assumptions used for the purpose of the valuation were based on analyses of the experience of the generality of Civil Servants.

The directors consider that the fund established to meet any future pension transfer into the Principal Civil Service Pension Scheme is adequate and the difference between the fund established and the actuarial valuation is not significant at this stage.

Given the impending restructuring of HRI an assessment of liabilities as at 31 March 2004, on a discontinuance basis, was commissioned from GAD. This assumed that liabilities would be transferred to other pension arrangements at or soon after the 1 April 2004, and will become applicable if and when the formal transfer agreement between Defra and the University of Warwick is completed. The results of the discontinuance valuation indicated a maximum accrued pension liability as at 31 March 2004 of £12.86m in respect of members and former members of the HRI pension scheme. Any shortfall in the funding this liability would be financed by Defra from a Quinquennial Review Implementation budget.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

5. EMPLOYEES AND EMPLOYEE COSTS (Continued)

(e)	The directors remuneration for the year was:	2003	2002
		£'000	£'000
	Directors' remuneration	69	63
	Chairman (and highest paid director)	27	27
	Directors' reimbursed expenditure (travel)	10	10
		2003	2002
		Number	Number
	Number of directors receiving reimbursed expenditure	10	10

The directors receive out of pocket expenses for attendance at meetings. These amounts are nominal and reflect direct expenditure incurred.

None of the directors accrue benefits under defined benefit pension schemes.

(f) The number of employees whose emoluments for the year fall within the following bands are shown below:

	2003	2002
	£'000	£'000
£50,000 - £60,000	9	2
£60,001 - £70,000	1	1
£70,001 - £80,000	-	-
£80,001 - £90,000	-	-
£90,001 - £100,000	1	1

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

6. TANGIBLE FIXED ASSETS

Tangible fixed assets on a historical cost basis are stated as follows:

	Additions to leasehold land and buildings £'000	Plant and machinery, fixtures and fittings £'000	Total £'000
Cost			
At 1 April 2002	50,902	8,255	59,157
Additions in year at cost	2,326	870	3,196
Expiration of 10 year life	-	(1,075)	(1,075)
	-----	-----	-----
At 31 March 2003	53,228	8,050	61,278
	-----	-----	-----
Depreciation			
At 1 April 2002	8,560	7,029	15,589
Charged in year	1,065	880	1,945
Impairment	4,000	-	4,000
Expiration of 10 year life	-	(1,075)	(1,075)
	-----	-----	-----
At 31 March 2003	13,625	6,834	20,459
	-----	-----	-----
Net book value			
At 31 March 2003	39,603	1,216	40,819
	=====	=====	=====
At 31 March 2002	42,342	1,226	43,568
	=====	=====	=====

Less than one per cent of total net book value of the tangible fixed assets recorded above relate to the management and administration function.

Most land occupied by Horticulture Research International is leased from Defra, and one property is leased from the East Malling Trust for Horticultural Research (EMTHR).

Following the announcement for early closure of the Efford site in October 2003, an impairment review was carried out in respect of the relevant assets. The impairment provision is reflected in the table above, and is offset by a corresponding release from the Capital grants received fund within restricted funds.

The remaining assets of HRI are stated on the basis that HRI's leases are successfully renegotiated, but these asset values will be reviewed by directors when the formal transfer agreement with the University of Warwick is finalised at which time asset values will reflect recoverable amounts. Any resulting adjustments to asset values as a result of future restructuring will also be offset by a matching adjustment to the Capital grants received fund within restricted funds.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

7. INVESTMENTS

During the year two new non-trading subsidiaries were registered (in England and Wales). These are called Invicta Innovations Limited and Agarico Limited.

The following are wholly owned subsidiary companies:

Malling Limited
HRI Limited
Sciencebase Limited
Progenco Limited
Invicta Innovations Limited
Agarico Limited

The issued share capital of all the subsidiary companies except Sciencebase Limited consists of 3 ordinary shares of £1 each. Sciencebase Limited has share capital consisting of 2 ordinary shares of £1 each.

Each of these companies is registered in England and Wales and none traded during the year. These subsidiaries are not consolidated on the grounds of materiality in accordance with S229 of the Companies Act 1985 and per SORP 2000 paragraph 300 (b).

8. STOCKS

	2003 £'000	2002 £'000
Raw materials and consumables	191	203
Growing crops	21	29
	<hr/> 212	<hr/> 232
	<hr/> <hr/>	<hr/> <hr/>

The directors consider that the current or replacement cost of the above stocks would not be significantly different from the values stated.

9. DEBTORS

	2003 £'000	2002 £'000
Trade debtors	1,468	1,809
Amounts recoverable on contracts	677	629
Other debtors	226	1,023
Prepayments	251	225
	<hr/> 2,622	<hr/> 3,686
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

10. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2003	2002
	£'000	£'000
Payments received on account	1,683	948
Trade creditors	822	789
Other tax and social security	245	289
Other creditors	46	93
Accruals and deferred income	2,456	2,271
	<u>5,252</u>	<u>4,390</u>

11. PROVISIONS FOR LIABILITIES AND CHARGES

	2003	2002
	£'000	£'000
Obligations in respect of the payment on transfer into the Principal Civil Service Pension Scheme	10,915	9,741
	<u>10,915</u>	<u>9,741</u>

The provision at 31 March 2003 reflects the amounts needed to transfer all relevant employees back into the Principal Civil Service Pension Scheme (see note 5).

	2003	2002
	£'000	£'000
At 1 April 2002	9,741	7,724
Provided in the year	885	828
Interest received and receivable	340	333
Transfers in	221	105
Transfers out	(95)	(37)
Pensions paid	(82)	(71)
Pension lump sum payments	(83)	(8)
Management charges	(12)	(9)
Funding received from Defra	-	876
	<u>10,915</u>	<u>9,741</u>
At 31 March 2003	10,915	9,741

As a consequence of the continued postponement of primary legislation in Parliament transferring all employees and pension liabilities into the Principal Civil Service Pension Scheme, a pension reserve fund has been established for the purpose of providing for the expected transfer value to be incurred in future years. The directors will ensure that this funding and future net funding received in respect of this pension fund is "ring fenced" within cash at bank and will not be used for any other purpose.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

12. ANALYSIS OF NET ASSETS BETWEEN FUNDS

	Unrestricted funds			2003 Total £'000	2002 Total £'000
	General funds £'000	Designated funds £'000	Restricted funds £'000		
Tangible fixed assets	1,451	1,648	37,720	40,819	43,568
Current assets	4,511	-	10,915	15,426	13,868
Total liabilities and provisions	(5,252)	-	(10,915)	(16,167)	(14,131)
	<u>710</u>	<u>1,648</u>	<u>37,720</u>	<u>40,078</u>	<u>43,305</u>

13. ANALYSIS OF FUNDS

	Unrestricted Funds			Total Funds £'000
	General funds £'000	Designated funds £'000	Restricted funds £'000	
Balance at 1 April 2002	710	2,044	40,551	43,305
Net outgoing resources before transfers	(6,231)	-	3,004	(3,227)
Transfers between funds:				
Capital grant received amortisation	1,835	-	(1,835)	-
Capital grant received impairment	4,000	-	(4,000)	-
Net deficit	396	(396)	-	-
At 31 March 2003	<u>710</u>	<u>1,648</u>	<u>37,720</u>	<u>40,078</u>

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

14. RESTRICTED FUNDS

	2003 £'000	2002 £'000
Capital grants received fund		
At 1 April 2002	40,797	41,187
Additions - received and receivable		
Defra	2,510	1,409
Other	414	-
Write off on disposal	-	-
Amortisation	(1,835)	(1,799)
Impairment provision	(4,000)	-
	<hr/>	<hr/>
At 31 March 2003	37,886	40,797
	<hr/>	<hr/>
Other fund		
At 1 April 2002	(246)	1,954
Funding received from Defra	80	692
Payments made in the year	-	(2,892)
	<hr/>	<hr/>
At 31 March 2003	(166)	(246)
	<hr/>	<hr/>
Total Restricted Funds	37,720	40,551
	<hr/> <hr/>	<hr/> <hr/>

Capital grants received fund

The capital grants received fund reflects capital grants received, primarily from Defra, relating to fixed asset expenditure. Amounts in respect of capital grants are credited to Income and Expenditure (Restricted Funds) as received or when approved capital expenditure is made. Amounts are then credited to unrestricted funds (and income and expenditure) over the life of the related assets. On disposal or impairment of related fixed assets, relevant amounts are deducted from the Capital grants received fund and the fixed asset balance.

Other fund

The apparent deficit on the 'other funds' balance relates to amounts payable by Defra to HRI for 'restructuring' as per a pre-agreed payment schedule. Receipts during the year have been paid in accordance with this schedule.

HORTICULTURE RESEARCH INTERNATIONAL

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

15. UNRESTRICTED FUNDS

	2003 £'000	2002 £'000
Designated funds		
At 1 April 2002	2,044	2,613
Net deficit transferred to reserve fund	(396)	(569)
	<hr/>	<hr/>
At 31 March 2003	1,648	2,044
	<hr/> <hr/>	<hr/> <hr/>

The designated funds above are regarded by the directors as being available for specific future expenditure of the Company to support larger projects and to meet future operating deficits where necessary.

	2003 £'000	2002 £'000
Other charitable funds		
At 1 April 2002	710	710
Surplus transferred to accumulated surpluses	-	-
	<hr/>	<hr/>
At 31 March 2003	710	710
	<hr/> <hr/>	<hr/> <hr/>

16. LIABILITY LIMITED BY GUARANTEE

The Company is limited by the guarantee of the Members, who are also the directors, to a maximum of £1 each.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

17. COMMITMENTS

	2003	2002
	£'000	£'000
a) Capital commitments:		
Contracted for	636	2,223
	<hr/>	<hr/>
b) Leasing commitments:		
The annual commitments under operating leases are analysed according to the period in which each lease expires, as follows:		
	2003	2002
	£'000	£'000
Land and buildings, leases expiring:		
Within one year	525	216
In two to five years	-	-
Beyond five years	100	348
	<hr/>	<hr/>
	625	564
	<hr/>	<hr/>
Plant and machinery, leases expiring:		
Within one year	11	15
In two to five years	26	24
Beyond five years	-	-
	<hr/>	<hr/>
	37	39
	<hr/>	<hr/>

18. CONTINGENT LIABILITIES

Insurances:

Building insurance is only effected by the Company in respect of the East Malling site.

A policy exists to cover the Company's liability under the Employers' Liability (Compulsory Insurance) Act 1969 for Company employees, but certificates of indemnity under the Regulations of the Act are in operation from Defra for Defra employees, and from the Office of Science and Technology for BBSRC employees.

Other:

Under the conditions of grant in aid agreed between the BBSRC and the Company, any unspent balance of annual grant will not normally be surrendered at the end of a financial year, but the BBSRC does reserve the right to make adjustments in succeeding years. No adjustments have been made in recent years and none are expected for 2003.

NOTES TO THE FINANCIAL STATEMENTS

31 March 2003

19. RECONCILIATION OF NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES TO NET OUTGOING RESOURCES

	2003 £'000	2002 £'000
Net outgoing resources	(3,227)	(3,159)
Depreciation	1,945	1,851
Impairment	4,000	-
Movement in pension provision	1,174	2,017
Interest receivable	(47)	(95)
Decrease in stocks	20	50
Decrease/(increase) in debtors	1,064	(114)
Increase/(decrease) in creditors	862	(1,145)
	<hr/>	<hr/>
Net cash inflow/(outflow) from operating activities	5,791	(595)
	<hr/> <hr/>	<hr/> <hr/>

20. RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2003 £'000	2002 £'000
Increase/(decrease) in cash	2,642	(2,154)
	<hr/>	<hr/>
Increase/(decrease) in net funds from cashflow	2,642	(2,154)
Net funds at 1 April	9,950	12,104
	<hr/>	<hr/>
Net funds at 31 March	12,592	9,950
	<hr/> <hr/>	<hr/> <hr/>

21. ANALYSIS OF NET DEBT

	1 April 2002 £'000	Cashflow £'000	31 March 2003 £'000
Cash at Bank and in hand	9,950	2,642	12,592
	<hr/>	<hr/>	<hr/>
Net funds	9,950	2,642	12,592
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

ACCOUNTS DIRECTION

The Department for Environment, Food and Rural Affairs (Defra), with the approval of the Treasury, hereby gives the following Direction:

1. The following requirements are additional to the requirements of the Companies Act with which HRI, as a limited company, is obliged to comply. This Direction shall apply in respect of the financial year ending 31 March 1992 and in respect of any subsequent financial year.
2. In so far as it is not incompatible with requirements of the Companies Act, the Committee shall observe all relevant guidance given in 'Government Accounting' and in 'Executive Non-Departmental Public Bodies: Annual Reports and Accounts Guidance' as amended and augmented from time to time.
3. The Committee shall observe the best commercial accounting practices including accounting standards issued or adopted by the Accounting Standards Board.
4. In addition the Committee shall observe the following requirements:
 - a) the disclosure exemptions permitted by the Companies Act 1985 shall not apply to the Committee unless specifically approved by the Department and the Treasury;
 - b) in preparing its income and expenditure account, the Committee shall adopt format 2 prescribed in Schedule 4 to the Companies Act 1985 (for Profit and Loss accounts);
 - c) in preparing its balance sheet, the Committee shall adopt format 1 prescribed in Schedule 4 to the Companies Act 1985 as described in Annex C to the "Trading Accounts" booklet. The balance sheet totals shall be struck at "Total assets less all liabilities".
 - d) the accounts shall include a statement of the HRI reserve fund position as at 31 March.

FIVE YEAR SUMMARIES - INCOME AND EXPENDITURE ACCOUNT
for the year ended 31 March 2003

	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Incoming resources					
Defra commission	9,139	9,118	8,420	9,202	9,857
BBSRC CSG	3,071	3,254	3,044	3,201	3,609
Commercial research income					
Defra open LINK contracts	1,278	1,273	1,955	2,204	2,492
HDC	698	1,205	2,099	2,387	1,970
Other	4,089	4,052	4,771	4,502	3,911
Other receipts	1,545	1,438	1,111	1,218	1,517
Total incoming resources - general fund	19,820	20,340	21,400	22,714	23,356
Capital grant amortisation	1,835	1,799	1,764	1,533	1,370
Capital grant impairment release	4,000	-	-	-	-
Gross income from continuing operations	25,655	22,139	23,164	24,247	24,726
Resources expended					
Direct charitable expenditure	20,178	20,642	24,032	24,084	22,841
Management and administration	1,873	2,066	1,895	1,801	1,529
Impairment provision	4,000	-	-	-	-
Total expenditure for continuing operations	26,051	22,708	25,927	25,885	24,370
Net (deficit)/income for year	(396)	(569)	(2,763)	(1,638)	356
Net (outgoing)/incoming resources	(3,227)	(3,159)	(1,679)	(3,366)	5,111
	2003 £'000	2002 £'000	2001 £'000	2000 £'000	1999 £'000
Balance Sheet					
Tangible fixed assets	40,819	43,568	43,765	44,711	45,533
Current assets	15,426	13,868	15,958	13,306	14,164
Creditors due within one year	(5,252)	(4,390)	(5,535)	(3,489)	(3,270)
Provisions for liabilities and charges	(10,915)	(9,741)	(7,724)	(6,385)	(4,918)
	40,078	43,305	46,464	48,143	51,509
Restricted funds	37,720	40,551	43,141	42,057	43,785
Designated funds	1,648	2,044	2,613	5,376	7,014
Other charitable funds	710	710	710	710	710
	40,078	43,305	46,464	48,143	51,509

**REVIEW REPORT
TO THE MEMBERS OF HORTICULTURE RESEARCH INTERNATIONAL**

We have reviewed the modified historical cost accounts on pages 30 to 34 which have been prepared in accordance with the basis of preparation set out on page 32. These modified historical cost accounts have been prepared by management in order to provide the required disclosures for reporting under Treasury guidelines for an Executive Non-Departmental Public Body. The modified historical cost accounts are the responsibility of management. Our responsibility is to report on these modified historical cost accounts based on our review.

A review is limited primarily to enquiries of management, analytical procedures applied to the financial information being reviewed and, in this instance, a consideration of the basis of preparation of the modified historical cost accounts. A review provides substantially less assurance than an audit conducted in accordance with auditing standards. We have not performed an audit and, accordingly, do not express an audit opinion on the modified historical cost accounts.

Based on our review, we are not aware of any material modifications that should be made to the modified historical cost accounts for them to be in conformity with the basis of preparation set out on page 32.

RSM Robson Rhodes LLP
Chartered Accountants and Registered Auditors
Birmingham, England
31 July 2003

HORTICULTURE RESEARCH INTERNATIONAL

MODIFIED HISTORICAL COST STATEMENT OF FINANCIAL ACTIVITIES for the year ended 31 March 2003

	General funds £'000	Unrestricted designated funds £'000	Restricted funds £'000	2003 Total funds £'000	2002 Total funds £'000
Incoming resources					
Defra commission	9,139	-	2,590	11,729	11,219
BBSRC CSG	3,071	-	-	3,071	3,254
Commercial research income					
Defra open link contracts	1,278	-	-	1,278	1,273
HDC	698	-	-	698	1,205
Other	4,089	-	-	4,089	4,052
Other receipts	1,545	-	414	1,959	1,438
Total incoming resources	19,820	-	3,004	22,824	22,441
Resources expended					
Direct charitable expenditure	20,178	-	-	20,178	23,534
Fund raising and publicity	206	-	-	206	179
Management and administration	1,667	-	-	1,667	1,887
Impairment provision	4,000	-	-	4,000	-
Modified historical cost adjustment:					
Notional cost of capital	2,823	-	-	2,823	2,780
Notional cost of insurance	228	-	-	228	224
Additional depreciation	669	-	-	669	751
Total resources expended including notional costs	29,771	-	-	29,771	29,355
Net outgoing resources before transfers	(9,951)	-	(996)	(6,947)	(6,914)
Transfers between funds	6,231	(396)	(5,835)	-	-
Net outgoing resources	(3,720)	(396)	(2,831)	(6,947)	(6,914)
Intra-fund transfers	3,720				
Revaluation reserve movement	14				
Fund balances at 1 April 2002	3,732				
Funds balances at 31 March 2003	3,746				

**MODIFIED HISTORICAL COST
BALANCE SHEET
at 31 March 2003**

	Note	2003 £'000	2002 £'000
Fixed assets			
Tangible assets	2	43,855	46,590
Investments		-	-
		<hr/>	<hr/>
		43,855	46,590
		<hr/>	<hr/>
Current assets			
Stocks		212	232
Debtors		2,622	3,686
Cash at bank and in hand		12,592	9,950
		<hr/>	<hr/>
		15,426	13,868
Creditors: Amounts falling due within one year		(5,252)	(4,390)
		<hr/>	<hr/>
Net current assets		10,174	9,478
		<hr/>	<hr/>
Total assets less current liabilities		54,029	56,068
		<hr/>	<hr/>
Provisions for liabilities and charges			
Pension fund reserve		(10,915)	(9,741)
		<hr/>	<hr/>
Net assets		43,114	46,327
		<hr/>	<hr/>
Restricted funds		37,720	40,551
Designated funds		1,648	2,044
		<hr/>	<hr/>
		39,368	42,595
Other unrestricted funds :			
Revaluation reserve	3	3,036	3,022
Other reserves	3	710	710
		<hr/>	<hr/>
		43,114	46,327
		<hr/>	<hr/>

NOTES TO THE MODIFIED HISTORICAL COST ACCOUNTS

31 March 2003

1 BASIS OF PREPARATION

- a) The statement of financial activities and balance sheet set out in pages 30 and 31 are stated on a modified historical cost basis in accordance with HM Treasury requirements for Executive Non-Departmental Public bodies.

The basis for the calculation of the modified historical cost adjustments are as set out below:

- b) Notional cost of capital

Notional cost of capital, representing the average capital employed during the year, is calculated on the basis of 6% of total capital employed. Capital employed is defined as total assets less total liabilities.

- c) Notional cost of insurance

Notional cost of insurance represents a provision to cover the estimated value of claims in respect of uninsured risks. The annual cost is calculated on the basis of 1% of total income before amortisation of capital grants.

- d) Valuation of tangible fixed assets

Additions to leasehold land and buildings: The existing additions to land and buildings on all sites was valued by Powis Hughes and Associates (professional valuers) as at 31 May 2001 and this valuation has been incorporated within the modified historical cost accounts.

Plant and machinery, fixtures and fittings: Some large items of plant were included in the Strutt and Parker valuation in 1992. All other equipment was revalued by the Company during the year ended 31 March 1994, by reference to suppliers' price lists, direct quotes, or specialist estimate and this valuation has been incorporated within the modified historical cost accounts.

- e) Depreciation of tangible fixed assets

The annual depreciation charge on the modified historical cost assets is calculated on the restated cost of fixed assets using the same rates as used in the preparation of the historical cost accounts. At each period end the accumulated modified historical cost depreciation is set at the same level of increase as the enhancement to valuation noted above.

NOTES TO THE MODIFIED HISTORICAL COST ACCOUNTS
31 March 2003

2. TANGIBLE FIXED ASSETS

Tangible fixed assets on a modified historical cost basis are stated as follows:

	Additions to leasehold land and buildings £'000	Plant and Machinery, Fixtures and fittings £'000	Total £'000
Current cost			
At 1 April 2002	45,900	16,942	62,842
Additions in year at cost	2,326	870	3,196
Expiration of 10-year life	-	(1,075)	(1,075)
Transfer to revaluation reserve	965	294	1,259
	<hr/>	<hr/>	<hr/>
At 31 March 2003	49,191	17,031	66,222
Depreciation			
At 1 April 2002	918	15,334	16,252
Charged in year	965	1,649	2,614
Expiration of 10-year life	-	(1,075)	(1,075)
Impairment	4,000	-	4,000
Transfer to revaluation reserve	660	(84)	576
	<hr/>	<hr/>	<hr/>
At 31 March 2003	6,543	15,824	22,367
Net book value			
At 31 March 2003	42,648	1,207	43,855
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 March 2002	44,982	1,608	46,590
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE MODIFIED HISTORICAL COST ACCOUNTS
31 March 2003

3. OTHER UNRESTRICTED FUNDS

	Other Reserves £'000	Revaluation reserve £'000
At 1 April 2002	710	3,022
Net outgoing resources for year	(3,720)	-
Fixed asset revaluation	-	1,343
Depreciation transfer	669	(669)
Impairment of previously revalued asset	-	(660)
Notional costs for year:		
Cost of uninsured risks	228	-
Cost of capital employed	2,823	-
	<hr/>	<hr/>
At 31 March 2003	710	3,036
	<hr/> <hr/>	<hr/> <hr/>