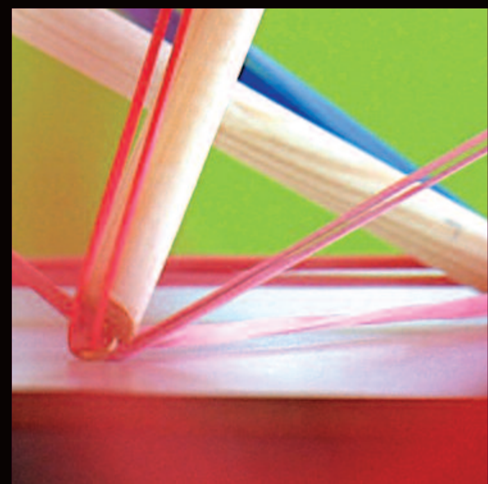


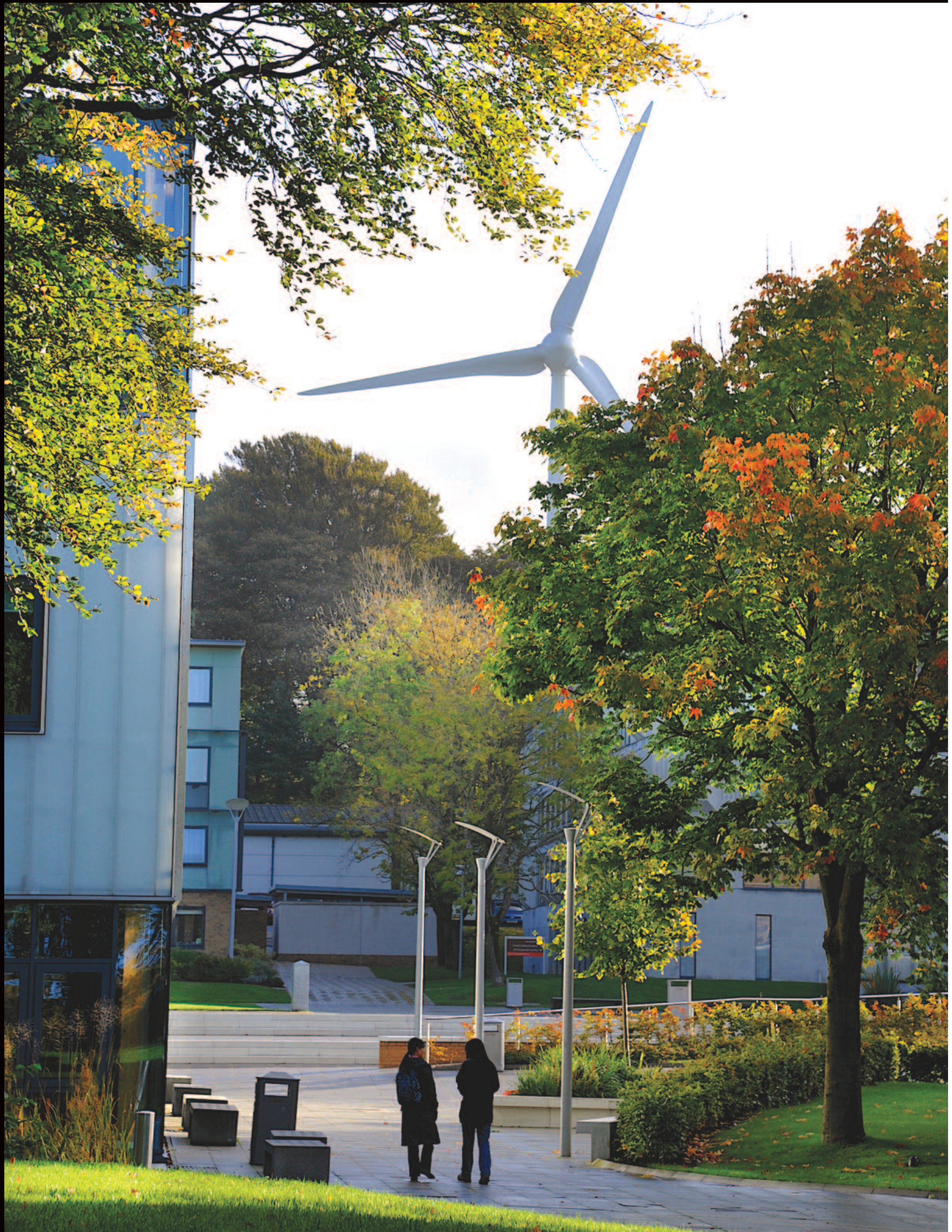

LANCASTER UNIVERSITY

ANNUAL Accounts 2013









Contents

Operating and financial review
for the year ended 31 July 2013

Scope of the financial statements
The financial statements, presented to the University Council, have been prepared on a consolidated basis and include the results of Lancaster University and its subsidiary companies. Details of the group are listed within note 32.

Results for the year
The underlying financial performance in 2012/13 reflects a very strong year for the University and continued adherence to its long-term financial strategy. This is in the context of the first year of transition to the new funding regime for Home/EU undergraduates which has brought a high level of uncertainty and volatility for the whole Higher Education sector.

The reported historical cost surplus is £14.4M. However, this includes a charge of £1.4M in respect of the accounting treatment for FRS 17 in respect of the Lancashire County Pension Fund and £0.5M of net endowment expenditure. In order to calculate the underlying surplus in a way that is consistent with our financial strategy, each year we adjust for these changes as shown in the table that follows. The underlying surplus for the year was £16.2M (8.2% of turnover) (2012: £8.3M, 4.5% of turnover), well ahead of the target range 4-5% and our long-term goal of an average surplus above 6%.

Other key highlights are as follows:

- Income growth of 7.4% reflecting both the change to the new Home/EU undergraduate regime plus strong growth in international student income.
- The continued improvement in underlying earnings as measured by Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) rising to £30M (£21.7M in 2011/12). This is a fundamental plank of our strategy in a funding environment where institutions increasingly need to support capital investment from internal cash generation.
- The continued tight management of costs across the board. Payroll costs increased 6.2% and as a proportion of total expenditure rose slightly to 57.5%. This proportion remained in line with the budget assumption even though total expenditure remained tightly constrained (up only 1.9%). Within the payroll increase, we prioritised academic staff investment in areas of approved growth and moved to consolidate our position in preparation for the upcoming Research Excellence Framework. A number of new appointments were secured as planned when the budget was set, but many came into effect towards or after the end of the financial year, giving rise to a favourable variance against staff costs. More discussion of this is given below.
- Due to the improved revenue performance and delayed capital expenditure, the net debt position decreased to £27.2M from £37.5M at July 2012. The gross debt to income ratio at 45.5% remained comfortably within our internal long-term threshold of 50%.

Credit rating
Our credit rating from Standard and Poor's was subjected to annual review in April 2013. Against a continuing backdrop of uncertainty for government funding streams, the transition phase for the home undergraduate market and wider macro-economic concerns, we were very pleased that the underlying strengths in Lancaster's academic and financial standing were recognised in the improvement to our rating from 'A+ with a positive outlook' to 'AA- stable'. The accompanying report also reflected Lancaster's strong reputation for both teaching and research creating robust student demand, together with strong financial management and strategic planning.

Calculation of 2012/13 adjusted surplus consistent with Finance Strategy:

	2012/13 £000	2011/12 £000
Income	197,839	184,185
Expenditure	(184,176)	(180,720)
Surplus for the year after depreciation of assets at valuation	13,663	3,465
Difference between historical cost depreciation and the revalued depreciation amount	620	666
Transferred from revaluation reserve released on impairment	68	2,146
Historical cost surplus	14,351	6,277
Additional FRS 17 pension cost	1,406	1,284
Net endowment expenditure	469	788
"Adjusted Surplus" consistent with financial strategy	16,226	8,349

FRS 17 adjustment
As set out in note 28, the Lancashire County Pension fund is a defined benefit scheme and assets and liabilities are re-measured each year by its actuaries. The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus or deficit is split between operating charges and finance items which are both recognised in the income and expenditure account and actuarial gains and losses which are recorded in the statement of total recognised gains and losses.

FRS 17 impact

	2012/13 £000	2011/12 £000
Charge to the income and expenditure account		
Staff costs	989	634
Interest payable and finance costs	417	650
Total charge	1,406	1,284
Credit/(charge) to the statement of total recognised gains and losses	7,167	(7,595)

Analysis of results for the year
The University has remained committed to its key strategic aim of developing strong relationships with selected overseas institutions alongside open market recruitment. One benefit of this strategy has been to ensure that the University's income sources are well-diversified and unconstrained by domestic funding and student number issues. The most significant of these are Sunway University College in Malaysia, GD Goenka World Institute in India and COMSATS in Pakistan. During the year the University worked to finalise plans for a teaching partnership in Accra, Ghana and the accreditation process was concluded in September 2013. These arrangements also provide opportunities for international experience for domestic students travelling abroad as part of summer school initiatives. On the Lancaster campus, the Lancaster University International Study Centre run by Study Group International has continued to thrive, providing a growing stream of students converting to undergraduate courses at Lancaster on completion of their foundation year. In aggregate, overseas fee income from all sources increased by ca. 20%. Looking ahead, Lancaster continues to attract high demand from top quality international students, with the largest ever undergraduate intake achieved in October 2013. This has provided a helpful counterbalance to potential instabilities in the sector as the transfer to the new Home/EU undergraduate system works through.

In common with other Universities in 2012/13, we found that the first year of the new funding regime brought considerable change to patterns of behaviour as both students and other institutions adjusted to the new flexibilities in the system. For 2013 entry, the government introduced further flexibility for institutions able to attract students with ABB or higher grades (or equivalent) and so new patterns are not yet clear or settled. The University adapted its practices and strategies in response and the position for 2013 is looking very strong.

During 2012/13 recovery levels on research grant activities were maintained but the level of gross income remained broadly static. This reflects a period of lower grant attainment following the tightening of Research Councils and Government departmental budgets dating back to 2010/11. This is still working through the accounts as grants typically last three years. The level of new awards granted during 2011/12 and 2012/13 has substantially increased and we should see this have a positive effect in future years on research income in the accounts. The impact of the current funding environment on opportunities for a research-led University of Lancaster's scale has been a key focus in the discussions of Lancaster's strategic plan.

During 2012/13 considerable progress was made to support the investments in staffing, equipment and buildings approved by University Council for the new Department of Chemistry and for the existing Department of Engineering. Agreement was also reached with Liverpool University, approved by the General Medical Council, to secure independence for the Lancaster Medical School, with the 2013 entry cohort and year 2 students both transferring to Lancaster accredited degrees. All these initiatives will provide further resilience and opportunity for income growth in disciplines highly regarded across the world.

A number of charts are shown below to provide analysis of the 2012/13 result and further comparison with the prior year.

Figure 1 shows the composition of income for the year and Figure 2 gives the change in mix since 2008/09.

Fig. 1: Income
Within Funding Council grants, the HEFCE grant for teaching was £17.8M (2011/12 £24.5M) with the reduction from the previous year reflecting the change in funding regime for home/EU undergraduates. The research grant element was static at £17.8M. Each element represented 9% of total income.

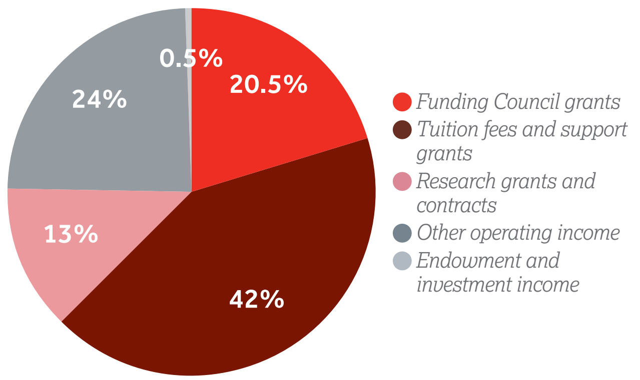
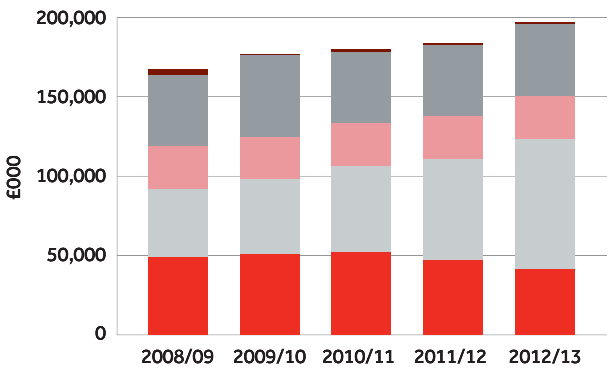


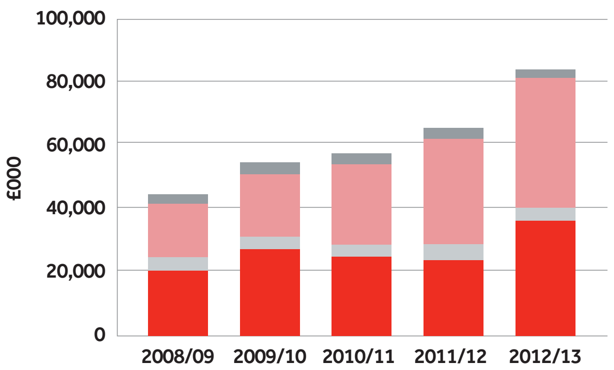
Fig. 2: Total Income



- *Endowment and investment income*
- *Other operating income*
- *Research grants and contracts*
- *Tuition fees and support grants*
- *Funding Council grants*

Figure 3 shows the growth in tuition fee income by category, with the growth in home/EU undergraduate fee income reflecting the change in funding regime (offsetting the phased reduction in HEFCE teaching grant).

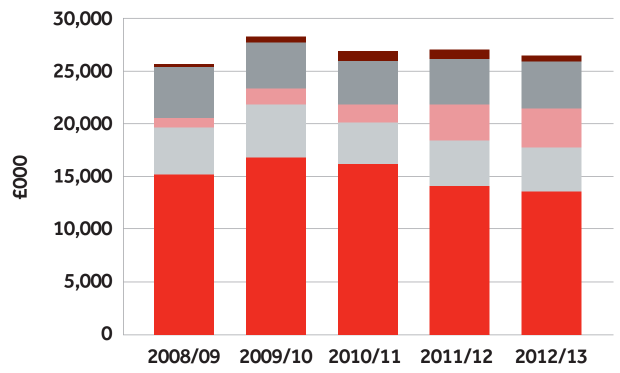
Fig. 3: Tuition Fee Income



- *Part-time fees and research training support grants*
- *Overseas*
- *Home full-time postgraduate*
- *Home full-time undergraduate*

Figure 4 shows the mix of research grant income by funder since 2008/09.

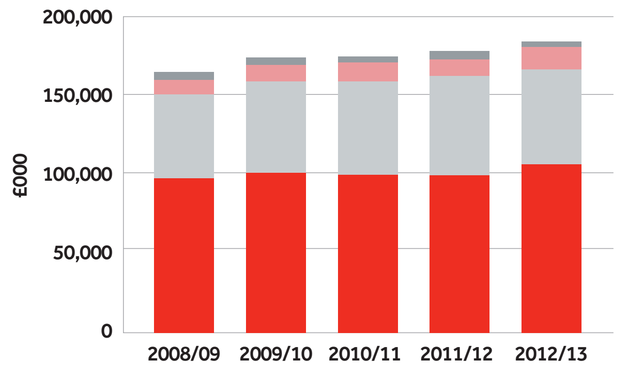
Fig. 4: Research Income



- *Other*
- *European Union*
- *Industry and commerce*
- *UK central government, local and health authorities*
- *Research councils and charities*

Fig. 5: Total Expenditure

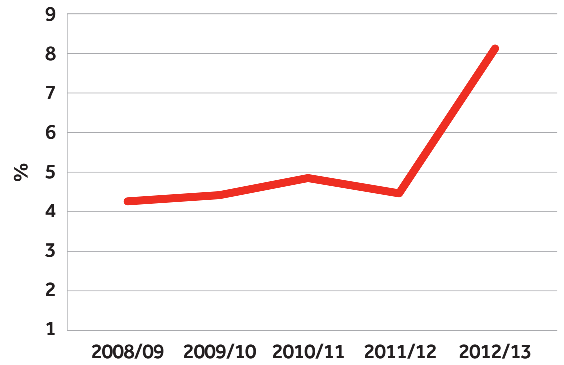
Overall expenditure increased from £176.6M to £182.3M with the year-on-year picture shown below. Figures are presented excluding the FRS 17 charge, restructuring costs and the exceptional impairment.



- *Interest and other finance costs*
- *Depreciation*
- *Other operating expenses*
- *Staff costs*

Strategic Plan Performance Indicators

Fig. 6: Underlying Surplus

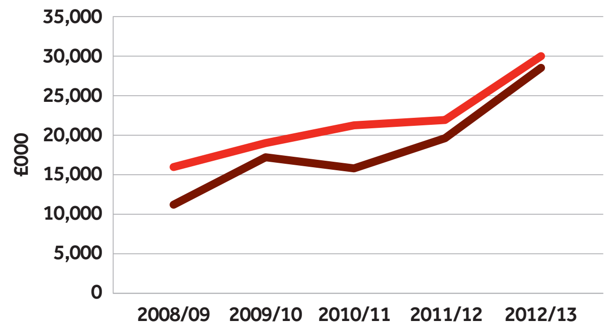


- *University*

The University has an excellent track record of meeting its financial surplus objectives in the target range of 4-5%. The sharp increase in performance in 2012/13 was due to a range of factors including delayed academic staff recruitment and general Faculty outperformance together with a significant lag to the capital programme (the latter affecting depreciation and net interest charges).

The strategy for the coming period is for surplus levels to move to an average trend above 6% to provide cash generation for investment. We are well positioned to achieve this.

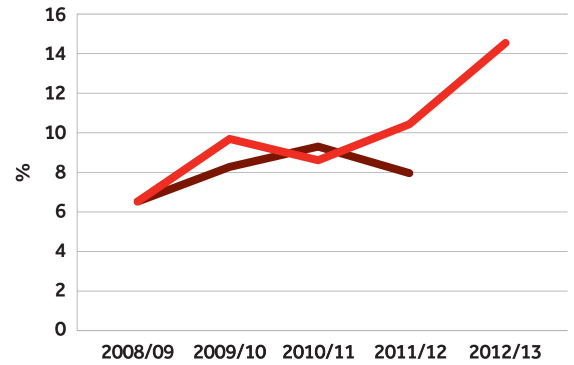
Fig. 7: Cash Generation & EBITDA



- *EBITDA*
- *Cash generation*

To separate underlying earnings from working capital movements, we track EBITDA (Earnings before interest, taxation, depreciation and amortisation) as well as operating cash generation as key performance indicators. The improvements in both measures are in line with our strategy to ensure that the University is financially sustainable and can support investment in its infrastructure at an appropriate level. Cash generation as a proportion of income is a measure that is tracked by HEFCE from institutional financial submissions so we can see our performance relative to the sector (up to 2012 available).

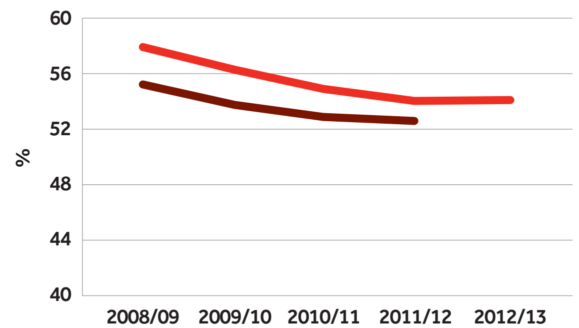
Fig. 8: Cash Generation as a % of total income



- *University*
- *Sector average*

Fig. 9: Payroll costs as percentage of income

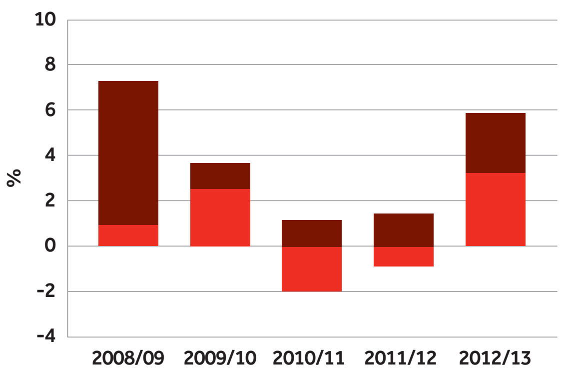
We monitor payroll costs as a proportion of total expenditure as one of our key indicators, with a target threshold of 60% and in 2012/13 we remained below our internal threshold at 57.5% (2011/12 56%). However, the indicator tracked by HEFCE compares payroll costs as a proportion of total income rather than expenditure, so we have re-presented Lancaster's figures against this measure in Fig. 9 below. This shows that in recent years our trend has been in line with the sector average, although the absolute proportion of our payroll costs has remained higher.



- *University (excluding restructuring costs)*
- *Sector average*

Further analysis of staff cost increases is provided in the following chart:

Fig. 10: Staff cost changes



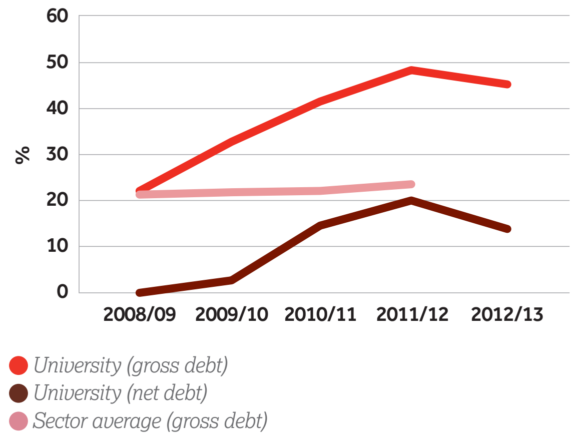
	2008/09	2009/10	2010/11	2011/12	2012/13
Total %	7.6	3.8	-1.0	0.2	5.9
Underlying %	6.6	1.2	1.0	1.3	2.7
Variable %	1.0	2.6	-2.0	-1.1	3.2

Staff costs increased by ca. 5.9% to £104.9M in the year (excluding the effect of the FRS 17 adjustment on pension costs). This compares to a 0.2% growth last year. This chart reflects the recent changes and constraints on overall payroll growth for the University over the period. It shows the changing proportions between national and pay scale structural increases together with increased pension costs including those from auto-enrolment. These are classified as underlying. Costs we can directly influence on an annual basis, reflecting overall staffing numbers, are shown as variable.

In 2012/13 the underlying increase in staff costs from pay award and incremental drift moved upwards to ca. 2.7%. Our expectation is that the underlying pressure will continue at a moderate level in the short-term despite inflationary pressures, although the national employers' offer of 1%, effective from 1 August 2013, is not agreed at the time of writing.

The sharp increase in the variable component in 2012/13 reflects the headroom released to support specific investments in areas of academic growth. This will impact fully in 2013/14 in advance of the Research Excellence Framework deadline together with additional academic posts in place from August and September 2013.

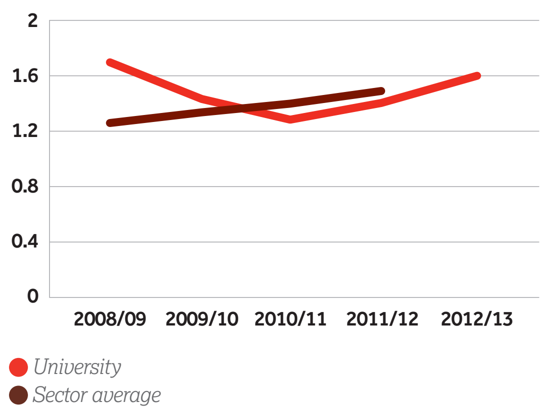
Fig. 11: Gross and Net Debt to Income



From 2009/10, gross debt to income started to move upwards from its previous low level, reflecting a debt refinancing project concluded in that year. The Council, in approving the Finance Strategy, had confirmed the University's need to make best use of the strength of our credit rating to support the reputation and resource base of the University. Certain financial parameters were agreed including an upper target threshold for gross debt to income of 50%. We have remained below this threshold in 2012/13 as £30.4M of drawdowns against our £35M Revolving Credit Facility were maintained.

The gross debt position does not reflect substantial cash balances held at the year end. Including these, the net debt position was at £27.2M (2012: £37.5M). This is further described in the Treasury, borrowings and investments section that follows.

Fig. 12: Current Asset Ratio



The current asset ratio moved up to 1.62, reflecting the delay in the level of planned capital investment as well as the revenue outperformance.

Treasury, borrowings and investments

Net debt improved by £10.3M during the year as a consequence of delays to the planned expenditure on the capital programme. The movement in funds is summarised below:

	31 July 2013 £000	31 July 2012 £000	Change £000
Current asset investments	800	800	–
Cash-in-hand	57,709	45,266	12,443
Endowment assets	4,200	4,214	(14)
Loans	(89,958)	(87,803)	(2,155)
Net Debt	(27,249)	(37,523)	10,274

The net cash inflow from operating activities for the year was £28.8M (2012: £19.4M). Interest paid totalled £3.8M (2012: £3.7M) and interest received was £1.1M (2012: £0.5M). Throughout the year the University operated with a cash surplus and the overdraft facility was only utilised to match small overnight liquidity requirements.

All treasury decisions are taken within the framework of the University's Treasury Policy. The underlying principle is that the University operates a low-risk approach in managing its investments and liquidity. All funds are placed with counter-parties agreed with the University and monitored against minimum credit rating criteria. The limit for investments with counter-parties rated at A with Standard and Poor's is £5M and at AA is £10M. The £10M limit is also applied to those institutions with either a government guarantee or a shareholding of at least 25%. During the year, our transmission banking arrangements were tendered and awarded to Barclays Bank plc. For operational reasons, the limit applied to our transmission bank is at a higher level of £20M.

Endowment assets increased by £192k to £5.6M. Of these investments, the market value of the funds managed by Cazenove Capital Management increased by £206k to £1.4M at 31 July 2013.

During 2012/13, £18.2M was spent on capital investment in our estate and infrastructure. This investment was offset by receipt of £1.9M in capital grants. Allowing for other financial movements, this resulted in an increase in cash and short-term deposits of £12.4M. The main developments in the capital programme are summarised as follows.

Capital programme

The last 12 months have seen important progress in planning for the next phase of our capital programme after a decade of major change. The upcoming period continues our approach of combining strategic investments alongside routine refurbishment projects. The academic strategic projects support those areas with propensity for growth. As well as routine refurbishments of student residences, lecture theatres and IT infrastructure, during the year we saw:

- Completion of comprehensive refurbished facilities for the Faculty of Health and Medicine with occupation from October 2012
- Completion of Wind Turbine and Biomass Boiler installations to support our commitment to sustainability and delivery of an ambitious Carbon Management Plan
- Finalisation of planning for a new Engineering building with completion scheduled in 2014/15
- Finalisation of planning for facilities to support the establishment and growth of the new Department of Chemistry through to 2018/19

Strategic Plan

In July 2013 a new Strategic Plan for the period to 2020 was approved by University Council after a long and active period of consultation with internal and external stakeholders. The process was highly consultative and included joint meetings of the Council and Senate as well as meetings with Lancaster City constituents. This means that it has delivered a strategy that we believe is genuinely owned by the whole University and is understood by Lancaster's broader community. It is based on three priorities – research, teaching and engagement – and four dimensions to ensure that it is delivered, these being 'the best staff', 'an international university', 'ensuring sustainability' and 'creating a great place to study and work'. Our vision is to become a university that is **globally significant** – a leader in higher education that provides the highest quality research and teaching and engages locally and internationally on the issues and debates of the day and future. Driven by research, and stimulating learning, the globally significant university informs and changes practice and thinking worldwide. Detailed implementation plans are being drawn up for confirmation in the autumn.

Financial strategy

Our financial strategy has been a consistent bedrock of our planning in recent years and has served us well through a turbulent period for HE funding. One key plank of the strategy is the need to generate sufficient cashflow to support sustainable capital investment and reinvestment (primarily in the estate but also covering IT and equipment needs). Recognising that external sources of investment were becoming increasingly scarce, the University strategy (2009-15) set out that EBITDA should move up towards £23M by 2013, with underlying surpluses moving to the 5-6% range. We have exceeded this ambition and as we take forward our new Strategic Plan to 2020, the level of surplus, cash generation and capital expenditure will remain key measures of success.

Efficiency

A new administrative structure was established during 2012/13, with the appointment of Nicola Owen as Chief Administrative Officer, a role which was designed to provide a broader oversight of administrative and governance matters than previously. Both the Chief Administrative Officer and Director of Finance report directly to the Vice-Chancellor, with all services and divisions under their remit being designated as 'Professional Services'. This better reflects their role as supporting the academic mission of the University. This is already showing benefits of improved team working and communications both across Professional Services and with administrative staff based in academic Faculties and Departments. It will also ensure that the operational objectives for each area are fully aligned with the updated University strategy.

During 2012/13 the University continued to make substantial progress on the greater co-ordination of its financial management and procurement activities together with a fundamental review of its undergraduate and postgraduate admissions processes. Substantial changes are being put in place for 2013/14. We remain mindful of the need to demonstrate Value for Money in all our activities and the national focus on securing the benefits outlined in the Diamond Review. Our focus is not all on back-office or procurement activities but also on directly student-facing activities, reflecting increased expectations and technological opportunities.

Risks for the coming period

The University has remained active in its management and anticipation of risk issues over the period. The Council has remained consistent in its approach to risk to ensure that the University does not become too risk averse, but instead takes new opportunities for growth whilst looking for ways to spread and manage the risks arising. The investment in the new department of Chemistry and international developments in Ghana reflect this approach.

During the year, we further refined our risk register to report to Council the level of potential financial impact of the largest reported risks. The Audit Committee also considered Lancaster's approach to risk management in light of a sector wide study and benchmarking of best practice. Whilst our current arrangements are robust, we are not complacent and will pursue continuous improvement in this area.

The increased flexibility offered by the changes to Home/EU student number planning across the sector are continuing to work through. Whilst patterns of student behaviour are yet to fully settle, we remain favourably positioned for the full transition to the new fees regime and the opportunities provided by increased liberalisation of student numbers. Whilst 2013 recruitment has been strong, the marketplace is increasingly competitive and we will ensure that we place sufficient effort into communicating the benefits of a Lancaster experience and education throughout the recruitment cycle.

The main risks as discussed at University Council are categorised into four key sections. They continue to relate to the pace of change in the global higher education environment and our abilities to respond flexibly. Our new strategic plan has been developed in this context. In the UK environment, changes to government priorities, pay and pensions issues will continue to require close attention.

Against this backdrop, in October 2013, the Council reviewed its risk policy and 'risk appetite' and considered that the measures taken against four key headings had adequately addressed its risk position at this time:

a) Inability to generate the resources to implement the strategic plan

- Maintaining a consistent and robust financial strategy with outperformance against financial targets in 2012/13
- Active management of applications and admissions processes to deliver target intakes in October 2013 whilst protecting entry grades
- Achievement of 2014/15 access agreement approval from OFFA
- Increased diversification of income including strategic international links with a select number of institutions with confirmed new development in Ghana and discussions ongoing in China
- Increased focus on research grant application success and collaborations. Active planning and investment to support 2014 Research Excellence Framework submission
- New planning process agreed for implementation from 2013/14 to better support academic resource allocation and identify opportunities for growth or adjustment
- Finalisation of plans for significant capital investments to support areas of strategic growth underpinned by business cases (Engineering and Chemistry)
- Continued use of the revolving credit facility to provide flexibility of funding

b) The reputation of the University suffers, with the knock-on effect on our ability to execute our plans

- Emphasis on maximising Lancaster's standing internationally with the 'Thinking Differently' dialogue opened with world-leading universities
- Detailed preparation for the Research Excellence Framework submissions
- Continued focus on entry standards, maintenance of high-standing in graduate employment and National Student Survey
- Appointment of in-country staff at each of our existing international partnerships together with scheduled quality review visits to ensure appropriate standards
- Due diligence on potential new international partners
- Improved credit rating from Standard & Poor's achieved April 2013

c) Inefficient or ineffective use of resources

- Changes to Professional Services with appointment of the new Chief Administrative Officer from January 2013 and continued priority for business process improvements
- Centralisation of procurement processes and improvement to date against external Procurement Maturity Assessment objectives
- As mentioned above, the new planning process agreed for implementation in 2013/14 will allow for better oversight and challenge of resources to support University's strategic goals – both revenue and capital

d) Failure to maintain an attractive working and learning environment

- Ongoing Capital Programme with delivery of key projects in 2012/13 and establishment of priorities for the upcoming period
- Monitoring of National Student Survey (NSS) results and flow through to policy updates

It should be noted that many of the risks that we face are sector issues rather than specific risks for Lancaster. Increasingly we are looking to benchmark ourselves against an international context. We remain well equipped to manage these issues from a position of financial strength, underpinned by strong academic reputation and our track record of flexibility as an organisation.

Conclusion

We have successfully managed the first year of transition to the new Home/EU undergraduate funding regime, retaining our strength in academic, reputational and financial terms. The improvement in the University's credit rating to AA- (Standard & Poor's) represented an important external validation of our overall position and prospects. The high-standing of the University continues to be reflected in top rankings in both domestic and international league tables. These are a reflection of our academic and research standing, the high level of student satisfaction and the quality of our graduates.

The Government's determination to allow flexibility on student numbers and to put 'students at the heart of the system' is now an embedded feature of the UK Higher Education environment. However, despite some early signs of improvement in the economic environment, public funding pressures across the rest of this decade are extremely challenging. We are not complacent about the ambition we have set for ourselves and are ready to address these challenges. With a strong supporting Financial Strategy, our updated Strategic Plan to 2020 sets a clear direction to achieve genuine global significance for Lancaster.

Professor Mark. E. Smith
Vice-Chancellor

Mrs Sarah. J. Randall-Paley
Director of Finance

22nd November 2013

Statement of Corporate Governance

The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in 1964. It is an exempt charity under the terms of Schedule 3 of the Charities Act 2011 and, as such, is subject to regulation by the Higher Education Funding Council for England. Its objectives, powers and framework of governance are set out in the Charter and its supporting Statutes, approved by the Privy Council.

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 governing body, responsible for the finance, property investments and general business of the University, and for setting the general strategic direction of the institution. The Council has adopted the following Statement of Primary Responsibilities in accordance with the principles contained within the CUC Governance Code of Practice:

  The Council – the primary governing body of the University and is responsible for:

  (i) approving the mission of the University and ensuring that it meets the interests of groups who can affect or who are affected by the achievement of the mission;

  (ii) stimulating, challenging, evaluating and endorsing strategies to deliver the University's objectives on an ongoing and financially viable basis;

  (iii) ensuring that there are in place appropriate arrangements for the management of the University, particularly through the appointment of the Vice-Chancellor and the members of the senior management team;

  (iv) ensuring that there are appropriate systems of audit control and accountability;

  (v) approving the principal policies of the University (particularly in the areas of finance, estates and human resources) on the recommendations of its sub-committees, and ensuring that there is an ethical policy framework consistent with the University's Charter and Statutes and mission;

  (vi) making such provision as it thinks fit for the general welfare of students, in consultation with the Senate;

  (vii) ensuring that there is full and appropriate consultation on major issues with internal and external groups with an interest in the University – especially the students, staff, alumni, employers, local, regional and national bodies – and active communication and consultation with Court and Senate;

  (viii) monitoring the University's performance and effectiveness against its objectives through the use of key performance indicators (KPIs) and benchmarking. The Council also regularly reviews its own effectiveness in facilitating the institutional performance.

The Council meets on a regular basis, usually six times a year. At each meeting in the past year it has generally received a briefing from a senior manager about issues of key importance to the University. The Council has reserved certain types of decision to itself and these are defined in Ordinance No. 4 (Matters reserved to Council for decision). They include approval of the University's strategic plans, financial targets, determination of key issues such as whether there should be redundancies, and the appointment of the Vice-Chancellor. The Council has delegated other decisions to the Vice-Chancellor or the Council sub-committees as defined in the Scheme of Council Delegations. The Council monitors management and institutional performance through the use of key performance indicators, using a balanced scorecard approach.

It has a majority of members who are neither staff nor students of the University (described as lay or independent members), one of whom is the Pro-Chancellor. The Pro-Chancellor chairs meetings of the Council. Also included in its members 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 which they do for the University. No members of Council received benefit from scholarships or bursaries awarded to our students. The lay members are indicated in Table 1.

Members of Council serve on a number of committees and become involved in other activities and issues across the University, depending on interests and availability.

Appointments of lay members are made on the basis of recommendations from the Nominations Committee. The only exception to this, made in recognition of the important relationship the University has with Lancaster City Council, is that the City Council may nominate one of its elected members eligible to serve as a lay member on the University Council.

Mr B. M. Gray, the Pro-Chancellor, holds several Directorships and is chairman of a number of companies. His term of office as Pro-Chancellor came to an end on 31 July 2013, at which time he also stepped down from the Council.

In June 2013, the University appointed as its next Pro-Chancellor Roger Liddle, Lord Liddle of Carlisle, who took up the role on 1 August 2013. Lord Liddle is an active Labour peer and the opposition front bench spokesperson on Europe in the House of Lords, speaking on topics including the economy, university policy and the regions. He is also chair of Policy Network, an international think tank, and an elected County Councillor for Wigton in Cumbria.

Professor M. E. Smith, the Vice-Chancellor, serves on the Board of the Higher Education Careers Service Unit (HECSU) and is a Board member and Trustee of the Higher Education Statistics Agency (HESA).

- **The Senate** – is the academic authority of the University and draws its membership from the academic and academic-related staff and the students of the institution. Its role is defined as follows:

  The Senate has primary responsibility for the academic work of the University, both in teaching and in research, and for the regulation and superintendence of the education and discipline of the students of the University. It may also discuss any matters relating to the University and may convey its opinions on them to the Council. Its key responsibilities are for:

  (i) the strategic development of the academic activities of the University; and

  (ii) the approval of policies to promote and ensure the quality of the academic work of the University, including teaching and research.

  In 2012/13, the Senate completed a review of its effectiveness, which led to a restructuring of the body and how it operates, to ensure proper deliberation from key constituencies on areas of teaching, research, the student experience and other academic matters as well as accountability to the Council.

- **The Court** – 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 has an annual meeting at which it receives reports on the working of the University, discusses any matters relating to the University, and conveys its opinion thereon to the Council or the Senate of the University.

  A majority of the members of the Court are 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.

Although the Council usually meets six times each academic year, much of its detailed work is initially handled by committees; in particular, the Finance and General Purposes Committee, the Audit Committee, the Estates Committee, the Nominations Committee and the Knowledge Exchange and Commercial Affairs Committee. The Council also has a Remuneration Committee and a Redundancy Committee. The decisions and recommendations of these committees are formally reported to the Council.

These Committees, and in some cases others, 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 person in the chair is usually selected).

Senior Officers and Executive Management

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 accountable officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

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 Deputy Vice-Chancellor, the Pro-Vice-Chancellors, the Faculty Deans and the senior administrative officers all contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Council.

The University maintains a Register of Interests of the following categories of members of the University: the Council, the Audit Committee, Faculty Deans, College Principals, Heads of Departments, principal investigators and Senior Officers, which may be consulted by arrangement with the University Secretary.

The Statutes of the University specify that the University Secretary is named as Secretary of the Council. Any enquiries about the constitution and governance of the University should be addressed to the University Secretary. Copies of the reports on key performance indicators may also be obtained from the University Secretary.

Statement of Corporate Governance (continued)

Table 1: Attendance at meetings during 2012/13

Name	Council: Eligible to attend	Council: Actually attended
* Gray, Mr B. Pro-Chancellor	5	5
Smith, Prof. M.E. Vice-Chancellor	5	5
Aitchison, Councillor P.	5	3
Baker, Mr A.	5	4
* Barron, Mr D.	2	1
* Boumphrey, Dr. R.	5	4
* Carr, Mr J.	5	3
Edwards, Mr C.	1	1
* Fitzherbert-Brockholes, Mr F.	5	3
* Gardner, Mrs G.	5	4
* Garside, Prof. J.	5	4
* Hadfield, Mr J.	5	5
Johnes, Prof. G.	5	5
* King, Mr L.	5	4
* Parker, Mr G.	5	4
Pullan, Mr J.	5	4
Ram-Prasad, Prof. C.	5	3
Rose, Prof. E.	5	3
Smith, Mr S.	4	4
Taylor, Dr. J.	5	5
* Thomason, Prof. H.	5	5
Thornberry, Mr J.	5	5
* Willis, Ms L.	5	5

* lay member

Statement on Internal Control

1 As the governing body of Lancaster University, Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in the Charter and Statutes and the Financial Memorandum with the HEFCE

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

3 Detailed review and monitoring of the system of internal control is carried out on behalf of the Council by the Audit Committee, from which it receives periodic reports concerning internal control, and it requires regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects. The Audit Committee has reminded Council that any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss

4 The Audit Committee receives regular reports from the internal auditors, which include the internal auditors' independent opinion on the adequacy and effectiveness of the institution's system of internal control, together with recommendations for improvement. It also receives presentations from managers of areas associated with the top risks on how they manage risk

5 In addition, an organisation-wide risk register is maintained from which a summary of the top risks are reported to each meeting of Council. The Council approves the Risk Policy and discusses its appetite for risk on an annual basis

6 The review of the effectiveness of the system of internal control is supported by the internal audit which is provided by KPMG, which operates to standards defined in the HEFCE Audit Code of Practice. The internal auditors submit regular reports which include the internal auditors' independent opinion on the adequacy and effectiveness of the institution's system of internal control, with recommendations for improvement

7 The review of the effectiveness of the system of internal control is also supported by the work of the University Management Advisory Group, who has responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports

8 In accordance with the University's Charter and Statutes, 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.

9 The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Higher Education Funding Council for England and the Council of the University, the Council, through its accountable officer, 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. The Council is responsible for the maintenance and integrity of the University and group's financial statements on the website *www.lancaster.ac.uk*. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

10 The key elements of the University's system of internal financial control, which is designed to enable Council 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, as set out in a Scheme of Council Delegations and the Financial Regulations
- A comprehensive medium and short-term planning and resource process, which was developed during 2012/13 and is being implemented in 2013/14
- Monthly reviews of income and expenditure involving variance reporting and updates of forecast outturns
- Clearly defined and formalised requirements for approval and control of expenditure
- A formalised treasury management policy
- Comprehensive financial regulations detailing financial controls and procedures
- A professional internal audit team whose annual programme is approved by the Audit Committee

11 In causing the financial statements to be prepared, the Council has ensured that:

- Suitable accounting policies are selected and then 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 is satisfied that the University has adequate resources to continue in operation for the foreseeable future; for this reason, the going concern basis continues to be adopted for the preparation of the financial statements

Public Benefit Statement

Lancaster University is an exempt charity under the terms of the Charities Act 1993.

In preparing this statement, the Council has been assured that regard has been given to the Charity Commission's revised general guidance on public benefit issued in September 2013.

The objects of the University are set out in the Royal Charter granted by HM Queen Elizabeth II on 14 September 1964 as:

"to advance knowledge, wisdom and understanding by teaching and research and by the example and influence of its corporate life".

In 2013, the University adopted a new Strategy for 2020 with a vision of how the University, driven by research and stimulating learning, will inform and change practice and thinking worldwide. One aim is to improve communities, lives and the economy.

In implementing the University's aims and objectives, the Council is guided by the values set out in the Strategy (and prior to that in the Strategic Plan 2009-2015), and is mindful of its responsibility to ensure that the University acts for the benefit of the public. The induction of new members of Council includes information about members' responsibilities as charity trustees. The University's beneficiaries are not only its undergraduate and postgraduate students, who benefit from the education they receive, but wider society, which benefits from having an educated workforce and access to innovative, high quality research.

Statement of Corporate Governance (continued)

The University aims to attract and retain students who have the potential to succeed in their chosen programme and to benefit from the experience. It also aims to ensure there is equality of opportunity for all applicants, whatever their background. The most recent figures produced by HEFCE demonstrate that the University exceeds its benchmark figures for recruiting students from state schools (89.6%, benchmark 80.9%) and percentage from low participation neighbourhoods (8.8%, benchmark 6.8%).

In order to ensure that students are not deterred by tuition fees from studying at Lancaster, the University committed £3.8M in 2012/13 to financial support for undergraduates and £1.4M for postgraduate students.

In 2012/13, almost 4,400 students graduated with undergraduate and postgraduate degrees at Lancaster and another 400 at our partner institutions. The most recent figures available (2012) show that 93% of the University's recent graduates went on to further study/research or into employment.

The breadth of the University's research spans 16 units of assessment in the Research Excellence Framework. In 2012/13, expenditure on research grants and contracts amounted to £22.5M. Unless there are contractual restrictions on the publication of the research outcomes, completed research from University staff is placed in the public domain.

In the last year for which figures are available (2011/12), the University had 203 research contracts with commercial businesses and non-commercial organisations, and engaged in consultancies to assist 642 small and medium enterprises. It provided courses for business and the community which totalled 17,471 "learner days" of continuing professional development and continuing education. Work to enhance communities and economic development is important to the University, with expenditure of £3.2M on regeneration and development programmes. Last, but not least, University staff engaged in delivering popular public lectures, arts performances and exhibitions.

The Annual Report provides further information on progress and achievements against the Strategic Plan and the overarching objects.

Independent auditors' report to the Council of Lancaster University

We have audited the group and parent institution financial statements (the "financial statements") of Lancaster University for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Statement of Consolidated Historical Cost Surpluses & Deficits, the Consolidated Statement of Total Recognised Gains and Losses, the Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of the Council and auditors

As explained more fully in paragraph 9 of the Statement of Corporate Governance the Council is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Council as a body in accordance with Part 7 of the Statutes of the institution and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and parent institution's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Annual Accounts 2013 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and institution's affairs as at 31 July 2013 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education

Opinion on other matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- income has been applied in accordance with the institution's statutes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group.

PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors
Newcastle upon Tyne

22 November 2013

Statement of Accounting policies

1 Accounting Convention

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and in accordance with the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions (SORP) and applicable Accounting Standards. The principal accounting policies, which have been applied consistently, are set out below.

2 Basis of Consolidation

The consolidated financial statements include the financial statements of the University and all subsidiary undertakings for the financial year to 31 July 2013. The consolidated financial statements do not include those of Lancaster University Students' Union or the College Junior Common Rooms as the University has no financial interest and no control or significant influence over their commercial and financial policy decisions.

Entities are included within the consolidation from the point of the group achieving control and are excluded from the consolidation when control is lost.

3 Recognition of Income

Income from tuition fees is recognised in the period to which it relates and includes all fees chargeable to students or their sponsors. The costs of any fees waived by the University are included as expenditure in note 8.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

Income receivable from the Funding Council is recognised in line with the latest estimates of grant receivable for an academic year. The final grant allocation is determined in the subsequent March, following an audit of the University's activity.

4 Pensions

The University has two principal pension schemes, the Universities Superannuation Scheme for academic and related staff and the Lancashire County Pension Fund for non-academic staff.

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set.

The institution is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement Benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Lancashire County Pension Fund

The Lancashire County Pension Fund is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

5 Foreign Currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contacts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6 Fixed Assets

Land and Buildings

Expenditure on land and buildings is capitalised and interest on new loans to fund capital projects is capitalised until the date of completion. Freehold and long leasehold buildings are depreciated over their estimated useful lives as per the table opposite. 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 buildings were revalued on 31 July 1997. On an ongoing basis, this revaluation is to be regarded as deemed cost under FRS 15, and no future revaluations are to be performed.

Minor Works and Refurbishments

Expenditure on minor works and buildings refurbishments are capitalised at cost and depreciated over their expected useful lives as per the table opposite.

Equipment

Equipment costing less than £10k per individual item or group of related items is written off in the year of acquisition. Office furniture is written off in the year of acquisition. All other items of equipment are capitalised and depreciated over their expected useful lives as per the table below.

	Expected useful life (years)
Buildings	50
Minor works, plant & machinery and refurbishments	10 or 20
Fixtures, fittings and equipment	5

7 Heritage Assets

Works of art and other valuable artefacts (heritage assets) valued at over £25,000 have been capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable.

Heritage assets are not depreciated since their long economic life and high residual value mean that any depreciation would not be material. However, the University does monitor such assets for impairment.

8 Leases

Operating lease rentals are charged to the income and expenditure account as incurred.

9 Investments

Fixed asset investments are shown in the balance sheet at cost less provision for any impairment, as there is no intention to dispose of the investments. Endowment assets are shown in the Balance Sheet at current market value and the movement in value is charged or credited to specific endowments. Current asset investments are shown at the lower of cost and net realisable value.

10 Stocks

Building maintenance, catering, bars and central stationery stocks are brought into the accounts at cost price. So far as building maintenance stocks are concerned, each commodity is valued at an average cost price. Neither consumable materials held in academic departments nor library books are included in stock.

11 Taxation Status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and as such is a charity within the meaning of Para 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by sections 478 to 488 of the Corporation Tax Act 2010 (CTA 2010) (formerly enacted in Section 505 of the Income and Corporation Taxes Act 1988 (ICTA)) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes.

All subsidiary companies are liable to corporation tax and value added tax in the same way as any other commercial organisation.

The University's principal activities are exempt from value added tax, but certain ancillary supplies and services are liable to value added tax at various rates. Expenditure includes irrecoverable value added tax charged by suppliers to the University.

Deferred taxation is fully provided in respect of accelerated capital allowances and other timing differences arising in subsidiary companies.

12 Maintenance of Premises

Routine costs of general repairs and maintenance are charged to the income and expenditure account as incurred.

13 Cash Flows and Liquid Resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within 24 hours without penalty. No investments, however liquid, are included as cash.

14 Charitable donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Where charitable donations are restricted to a particular objective specified by the donor, these are accounted for as endowments. There are two main types:

- Restricted permanent endowments: the capital fund is maintained but the income can be used for the objective specified by the donor
- Restricted expendable endowments: the capital may be used in addition to the income for the objective specified by the donor

Donated assets, or donations received to be applied to the cost of an asset, are shown on the balance sheet as deferred capital grants. The deferred capital grant is released to income over the same expected useful life as that used to depreciate the asset.

Total return is the whole of the investment return received by the institution on the permanent endowment funds regardless of how it has arisen.

The total return, less any part of the return which has previously been applied for the purposes of the institution, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

Consolidated Income & Expenditure Account

For the year ended 31 July 2013

Income	Note	2012/13 £000	2011/12 £000
Funding Council grants	1	40,689	47,513
Tuition fees and support grants	2	82,681	63,948
Research grants and contracts	3	26,414	26,827
Other operating income	4	46,941	44,859
Endowment and investment income	5	1,114	1,038
Total Income		197,839	184,185
Expenditure			
Staff costs – continuing	6	105,849	99,669
– restructuring costs	7	256	554
Depreciation		13,021	12,325
Exceptional impairment of fixed assets		–	2,282
Total depreciation and impairment	10	13,021	14,607
Other operating expenses		60,841	61,579
Interest and other finance costs	9	4,209	4,311
Total Expenditure	8	184,176	180,720
Surplus on continuing operations after depreciation of assets at valuation		13,663	3,465
Transfer from endowments		469	788
Surplus for the year retained within general reserves	20	14,132	4,253

All items of income and expenditure arise from continuing operations.

Statement of Consolidated Historical Cost Surpluses & Deficits

For the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Surplus on continuing operations after depreciation of assets at valuation		13,663	3,465
Difference between historical cost depreciation and the actual depreciation charge for the year calculated on the revalued amount	21	620	666
Transferred from revaluation reserve released on impairment	21	68	2,146
Historical cost surplus		14,351	6,277

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Surplus on continuing operations after depreciation of assets at valuation		13,663	3,465
Appreciation / (depreciation) of endowment assets	19	206	(43)
Actuarial gain / (loss) in respect of pension scheme	28	7,167	(7,595)
New endowments	19	455	334
Total recognised gains / (losses) relating to the year		21,491	(3,839)

Reconciliation	£000
Opening reserves and endowments as at 1 August 2012	79,839
Total recognised gain relating to the year	21,491
Closing reserves and endowments as at 31 July 2013	101,330

Balance Sheets
as at 31 July 2013

	Note	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Fixed assets					
Tangible assets	10	268,621	264,306	266,804	263,794
Investments	11	286	382	9,646	9,742
		268,907	264,688	276,450	273,536
Endowment assets	12	5,645	5,453	5,645	5,453
Current assets					
Stocks		289	312	281	299
Debtors	13	17,285	16,908	19,878	18,700
Investments	14	800	800	800	800
Cash at bank and in hand		57,709	45,266	57,622	45,179
		76,083	63,286	78,581	64,978
Creditors: Amounts falling due within one year	15	(47,074)	(44,946)	(55,662)	(53,961)
Net current assets		29,009	18,340	22,919	11,017
Total assets less current liabilities		303,561	288,481	305,014	290,006
Creditors: Amounts falling due after more than one year	16	(93,382)	(92,134)	(92,878)	(91,890)
Provisions for liabilities	17	(2,573)	(2,368)	(2,573)	(2,368)
Net assets excluding pension liability		207,606	193,979	209,563	195,748
Net pension liability	28	(25,419)	(31,179)	(25,419)	(31,179)
Net assets including pension liability		182,187	162,800	184,144	164,569
Deferred capital grants	18	80,857	82,961	80,857	82,961
Endowments					
Expendable	19	3,749	3,794	3,749	3,794
Permanent	19	1,896	1,659	1,896	1,659
		5,645	5,453	5,645	5,453
Reserves					
Income and expenditure account	20	73,484	51,497	77,445	55,270
Revaluation reserve	21	22,201	22,889	20,197	20,885
Total reserves		95,685	74,386	97,642	76,155
Total funds		182,187	162,800	184,144	164,569

The financial statements were approved by the Council on 22 November 2013 and were signed on its behalf by;

Lord Roger. J. Liddle
Pro-Chancellor

Professor Mark. E. Smith
Vice-Chancellor and Accountable Officer

Mrs Sarah. J. Randall-Paley
Director of Finance

Consolidated
Cash Flow Statement

For the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Net cash inflow from operating activities	22	28,815	19,413
Returns on investment and servicing of finance	23	(2,630)	(3,045)
Capital expenditure and financial investment	24	(15,853)	(29,438)
Management of liquid resources	25	7,987	(18,455)
Financing	26	2,097	15,577
Increase / (decrease) in cash		**20,416**	**(15,948)**

Note to Consolidated Cash Flow Statement

The increase in cash of £20.4M referred to above excludes movements in short-term bank deposits in accordance with the requirements of FRS 1. During the year, short-term deposits decreased by £8.0M giving an overall increase in cash at bank and in hand of £12.4M.

	Note	2012/13 £000	2011/12 £000
Increase / (decrease) in cash		20,416	(15,948)
(Decrease) / increase in short-term deposits	25	(7,987)	18,455
Increase in cash and short-term deposits		**12,429**	**2,507**

Reconciliation of Net Cash Flow
to movement in Net Debt

For the year ended 31 July 2013

	Note	2012/13 £000	2011/12 £000
Increase / (decrease) in cash		20,416	(15,948)
Financing	26	(2,097)	(15,577)
(Decrease) / increase in short-term deposits	25	(7,987)	18,455
Amortisation of finance costs		(58)	(41)
Movement in the year		10,274	(13,111)
Net debt as at 1 August	27	(37,523)	(24,412)
Net debt as at 31 July	27	**(27,249)**	**(37,523)**

Notes
to the Financial Statements

1 Funding Council grants	Note	Group 2012/13 £000	Group 2011/12 £000
Basic recurrent grant		35,624	42,273
Specific grants:			
Higher Education innovation fund		2,291	1,973
Released from deferred capital grants	18	2,774	3,267
		40,689	47,513

2 Tuition fees and support grants	£000	£000
Home / EU fees	40,680	28,329
Overseas fees	39,505	32,691
Part-time fees	2,197	2,244
Research training support grants	299	684
	82,681	63,948

3 Research grants and contracts	£000	£000
Research councils and charities	14,035	14,801
UK central government, local and health authorities	4,236	3,996
Industry and commerce	3,348	3,207
European Union	4,159	4,009
Other	636	814
	26,414	26,827

4 Other operating income	Note	£000	£000
Colleges and residences		9,674	9,593
Other services rendered		22,035	19,971
Other income		14,038	14,228
Released from deferred capital grants	18	1,194	1,067
		46,941	44,859

5 Endowment and investment income	Note	£000	£000
Income from endowments	19 and 23	104	114
Income from donations		115	253
Other interest receivable		895	671
		1,114	1,038

6 Staff costs	Group 2012/13 £000	Group 2011/12 £000
Staff Costs:		
Wages and salaries	86,614	81,917
Social security costs	6,486	6,114
Other pension costs	12,749	11,638
	105,849	99,669

Emoluments of the Vice-Chancellor	£000	£000
Professor M. E. Smith		
Emoluments (part-year) January to July 2012	–	134
Emoluments (full-year) August 2012 to July 2013	239	–
Pension contributions to the Universities Superannuation Scheme	32	20
Total emoluments	271	154
Professor P. W. Wellings		
Emoluments (part-year) August to December 2011	–	76
Pension contributions to the Universities Superannuation Scheme	–	12
Total emoluments	–	88

Remuneration of higher paid staff	Number	Number
(excluding superannuation contributions and excluding the Vice-Chancellor)		
£100,001 – £110,000	8	9
£110,001 – £120,000	8	6
£120,001 – £130,000	–	1
£130,001 – £140,000	–	2
£140,001 – £150,000	1	1
£150,001 – £160,000	1	–
£160,001 – £170,000	2	1

Compensation for loss of office payable to a senior post-holder:	£000	£000
Compensation paid	–	124

The severance payment was approved by the University's remuneration committee

The average monthly number of persons (including senior post-holders) employed by the University during the year, expressed as full-time equivalents, was:

	Number	Number
Academic and related	1,373	1,331
Clerical and secretarial	584	572
Manual	215	217
Technical	68	65
Sessional	158	124
	2,398	2,309

Notes
to the Financial Statements (continued)

7 Staff costs – restructuring costs	Note	Group 2012/13 £000	2011/12 £000
Voluntary severance, early retirement costs and restructuring		256	554

8 Analysis of total expenditure by activity	£000	£000
Academic departments	103,649	98,775
Vice and Pro-Vice-Chancellors' portfolios	3,888	3,594
Facilities	15,431	15,476
Interest payable	3,792	3,661
Depreciation	13,021	12,325
Exceptional impairment of fixed assets	–	2,282
Total depreciation and impairment	13,021	14,607
Professional Services	31,048	31,505
Library	4,827	4,827
Other	2,648	2,937
University companies	4,466	4,054
Additional FRS 17 pension costs in excess of contributions paid	1,406	1,284
Total expenditure	**184,176**	**180,720**
Included above is expenditure in relation to:		
External auditors remuneration in respect of audit services	71	66
External auditors remuneration in respect of non-audit services	–	–
Bursaries and scholarships	5,233	5,975

Trustees

No trustee has received any remuneration / waived payments from the group during the year (2012: £nil). The total expenses paid to, or on behalf of, 10 trustees was £6,568 (2012: ten trustees totalling £7,657). This represents travel and subsistence expenses incurred in their official capacity in attending Council and other committee meetings.

9 Interest and other finance costs	Note	£000	£000
On loans repayable wholly or partly in more than 5 years		3,792	3,661
Net charge on pension scheme	28	417	650
		4,209	4,311

10 Tangible assets

Group	Land and Buildings £000	Plant and Machinery £000	Fixtures, Fittings and Equipment £000	Assets in the Course of Construction £000	Heritage Assets £000	Total £000
Valuation / Cost						
At 1 August 2012						
Valuation	119,816	5,862	–	–	700	126,378
Cost	120,653	9,025	98,097	11,807	–	239,582
	240,469	14,887	98,097	11,807	700	365,960
Additions at cost	3,989	2,155	7,033	4,159	–	17,336
Transfers	10,211	1,872	1,871	(13,954)	–	–
Disposals	(129)	–	(150)	–	–	(279)
At 31 July 2013	**254,540**	**18,914**	**106,851**	**2,012**	**700**	**383,017**
Accumulated depreciation						
At 1 August 2012	41,486	2,206	57,962	–	–	101,654
Charge for year	5,087	445	7,358	–	–	12,890
Disposals	(41)	–	(107)	–	–	(148)
At 31 July 2013	**46,532**	**2,651**	**65,213**	**–**	**–**	**114,396**
Net Book Value at 31 July 2013	**208,008**	**16,263**	**41,638**	**2,012**	**700**	**268,621**
Net Book Value at 1 August 2012	**198,983**	**12,681**	**40,135**	**11,807**	**700**	**264,306**

On adoption of FRS 15, Tangible Fixed Assets, the University followed the transitional provision to retain the book value of land and buildings and plant and machinery, which were revalued on 31 July 1997 by Gerald Eve, Chartered Surveyors. but not to adopt a policy of revaluations of these properties in the future. These valuations are retained subject to the requirement to test assets for impairment in accordance with FRS 11, Impairment of Fixed Assets and Goodwill.

Notes
to the Financial Statements (continued)

10 Tangible assets (continued)

University	Land and Buildings £000	Plant and Machinery £000	Fixtures, Fittings and Equipment £000	Assets in the Course of Construction £000	Heritage Assets £000	Total £000
Valuation / Cost						
At 1 August 2012						
Valuation	110,126	5,471	–	–	700	116,297
Cost	130,343	8,966	97,520	11,807	–	248,636
	240,469	14,437	97,520	11,807	700	364,933
Additions at cost	3,989	783	6,952	4,159	–	15,883
Transfers	10,211	1,872	1,871	(13,954)	–	–
Disposals	(129)	–	(150)	–	–	(279)
At 31 July 2013	254,540	17,092	106,193	2,012	700	380,537
Depreciation						
At 1 August 2012	41,486	2,206	57,447	–	–	101,139
Charge for year	5,087	384	7,271	–	–	12,742
Disposals	(41)	–	(107)	–	–	(148)
At 31 July 2013	46,532	2,590	64,611	–	–	113,733
Net Book Value at 31 July 2013	208,008	14,502	41,582	2,012	700	266,804
Net Book Value at 1 August 2012	198,983	12,231	40,073	11,807	700	263,794

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

	Group and University	
	2013 £000	2012 £000
Cost	183,335	177,320
Aggregate depreciation based on cost	43,573	38,082

The above costs include irrecoverable VAT, freehold land of £5,275k which is not depreciated and elements of assets in the course of construction. The Exchequer interest within freehold land and buildings is £47.8M (2012 £52.4M) and should buildings funded from Treasury sources be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the terms of the Financial Memorandum with HEFCE.

11 Investments

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Investments	286	382	286	382
Shares in group companies	–	–	9,360	9,360
At cost 31 July	286	382	9,646	9,742

Investments comprise of a donation of UK equities with a market value at 31 July 2013 of £249k (July 2012: £345k) and an equity investment of £37k in CVCP Properties Plc.

Shares in group companies include investments in four trading subsidiary companies, the results of which are incorporated within these consolidated financial statements. The results for the year ended 31 July 2013 of the four companies are as follows: Lancaster University Business Enterprises Ltd. (loss: £18k), Lancaster University Consultancy Services Ltd. (loss: £6k), The Work Foundation Alliance Limited (loss: £232k) and Lancaster University Network Services Limited (profit: £71k).

12 Endowment assets

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
At 1 August	5,453	5,950	5,453	5,950
Increase / (decrease) in market value of investments	206	(43)	206	(43)
(Decrease) / increase in cash balances held for endowment funds	(14)	(454)	(14)	(454)
At 31 July	5,645	5,453	5,645	5,453
Represented by:				
Equities	1,173	956	1,173	956
UK gilts and other fixed interest stocks	242	250	242	250
Property	30	33	30	33
Endowment cash balances	4,200	4,214	4,200	4,214
Total endowment asset investments	5,645	5,453	5,645	5,453
Endowment asset investments at cost	5,387	5,401	5,387	5,401

13 Debtors

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Amounts falling due within one year				
Trade debtors	13,984	14,774	12,775	13,889
Prepayments and accrued income	3,301	2,134	2,695	1,902
Amounts due from subsidiary companies	–	–	4,408	2,909
	17,285	16,908	19,878	18,700

Notes
to the Financial Statements (continued)

14 Investments

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Listed investments	800	800	800	800
	800	800	800	800

The listed investments represent a share portfolio managed by Investec. The target rate of return for the portfolio is the FTSE all shares index plus 1%. The market value of the investments at 31 July 2013 was £1,032k (2012: £847k).

15 Creditors

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Amounts falling due within one year				
Payments received on account	12,282	11,763	12,282	11,763
Trade creditors	17,073	16,151	16,927	16,032
Social security and other taxation payable	4,244	4,114	4,145	4,049
Accruals and deferred income	12,204	12,700	10,913	11,679
Unsecured loan	1,271	218	1,271	218
Amounts owed to subsidiary companies	–	–	10,124	10,220
	47,074	44,946	55,662	53,961

16 Creditors

	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Amounts falling due after more than one year				
Unsecured bank loans	86,361	86,303	86,361	86,303
Unsecured loans from HEFCE	2,326	1,282	2,326	1,282
Total loans	88,687	87,585	88,687	87,585
Deferred income	4,695	4,549	4,191	4,305
	93,382	92,134	92,878	91,890

The maturity profile of the loans was as follows:	Group 2013 £000	Group 2012 £000	University 2013 £000	University 2012 £000
Between 1 and 2 years	447	436	447	436
Between 2 and 5 years	2,718	1,962	2,718	1,962
Over 5 years	85,522	85,187	85,522	85,187
	88,687	87,585	88,687	87,585

In accordance with FRS 4, Capital Instruments, arrangement costs of £715k (2012: £773k) have been offset against the outstanding borrowings and are being amortised over the lives of the facilities.

Loan arrangements as at 31 July 2013:	Lender	Amount £000	Interest rate %	
Bullet loan repayable August 2039	Royal Bank of Scotland	44,676	5.84	Fixed
Revolving credit facility September 2019	Royal Bank of Scotland	30,400	1.83	Variable
Amortising loan repayable September 2030	Lloyds TSB	12,000	5.24	Fixed
HEFCE amortising loan repayable August 2020	HEFCE	2,326	0.00	N/A
Arrangement costs		(715)		
		88,687		

17 Provisions for liabilities (Group and University)

	Voluntary severance, early retirement and restructuring £000	Overseas partner development £000	Total £000
At 1 August 2012	1,785	583	2,368
Utilised in year	(210)	(94)	(304)
Transfer from income and expenditure account	246	263	509
At 31 July 2013	1,821	752	2,573

The payment profile of the voluntary severance, early retirement and restructuring provision was as follows:	2013 £000	2012 £000
Less than 1 year	357	267
Between 1 and 2 years	125	132
Between 2 and 5 years	375	392
Over 5 years	964	994
	1,821	1,785

The overseas partner development provision represents a contractual obligation to retain a proportion of associated fee income to fund certain staff development programmes for members of staff from our overseas partners. The timings of these programmes are driven by the needs of the overseas partners and it is therefore not possible to construct an accurate payment profile for this provision.

18 Deferred capital grants (Group and University)

	Funding Council £000	Other grants £000	Total £000
At 1 August 2012	55,660	27,301	82,961
New grants received	1,910	–	1,910
Transfer to research grant	–	(46)	(46)
Released to income and expenditure account	(2,774)	(1,194)	(3,968)
At 31 July 2013	54,796	26,061	80,857

Deferred capital grants include certain grants received with conditions attached in relation to output targets which may become repayable if these targets are not achieved. At the balance sheet date, conditions associated with the grants are being met.

Notes
to the Financial Statements (continued)

19 Endowments (Group and University)

	Restricted Expendable £000	Restricted Permanent £000	2013 Total £000	2012 Total £000
Balances At 1 August				
Capital	3,055	1,208	4,263	4,543
Accumulated income	739	451	1,190	1,407
	3,794	1,659	5,453	5,950
New endowments	455	–	455	334
Transfer to projects	(415)	–	(415)	(571)
Investment income	54	50	104	114
Expenditure	(139)	(19)	(158)	(331)
	(85)	31	(54)	(217)
Increase / (decrease) in market value of investments	–	206	206	(43)
At 31 July	**3,749**	**1,896**	**5,645**	**5,453**
Represented by:				
Capital	3,095	1,414	4,509	4,263
Accumulated income	654	482	1,136	1,190
	3,749	**1,896**	**5,645**	**5,453**

20 Income and expenditure account

	Group		University	
	2013 £000	2012 £000	2013 £000	2012 £000
At 1 August	51,497	52,027	55,270	55,341
Surplus retained for the year	14,132	4,253	14,320	4,712
Release from revaluation reserve	688	2,812	688	2,812
Actuarial gain / (loss) in respect of pension scheme	7,167	(7,595)	7,167	(7,595)
At 31 July	**73,484**	**51,497**	**77,445**	**55,270**

21 Revaluation Reserve

	Group		University	
	2013 £000	2012 £000	2013 £000	2012 £000
At 1 August	22,889	25,701	20,885	23,697
Transfer from revaluation reserve to general reserve in respect of:				
Depreciation on revalued assets	(620)	(666)	(620)	(666)
Transfer in respect of impairment	(68)	(2,146)	(68)	(2,146)
At 31 July	**22,201**	**22,889**	**20,197**	**20,885**

22 Reconciliation of consolidated operating surplus to net cash Inflow from operating activities

	Note	Group 2012/13 £000	Group 2011/12 £000
Surplus for the year		13,663	3,465
Depreciation and exceptional impairment	10	13,021	14,607
Deferred capital grants released to income	18	(3,968)	(4,334)
Investment income	5	(999)	(785)
Revaluation of non-cash donation		96	540
Amortisation of finance costs		58	41
Release of lease premium		(113)	(112)
Interest payable	9	3,792	3,661
Pension cost less contributions payable		1,406	1,284
Decrease / (increase) in stocks		23	(83)
(Increase) / decrease in debtors		(956)	1,800
Increase / (decrease) in creditors		2,587	(611)
Increase / (decrease) in provisions		205	(60)
Net cash inflow from operating activities		**28,815**	**19,413**

23 Returns on investment and servicing of finance

	Note	£000	£000
Income from endowments	5	104	114
Other interest received		1,066	505
Interest paid		(3,800)	(3,664)
		(2,630)	**(3,045)**

24 Capital expenditure and financial investment

	Note	£000	£000
Payment to acquire tangible fixed assets		(18,172)	(31,876)
Deferred capital grant received	18	1,864	2,104
New endowments received	19	455	334
		(15,853)	**(29,438)**

25 Management of liquid resources

	£000	£000
Movement in short-term deposits	**7,987**	**(18,455)**

26 Financing

	£000	£000
New loans acquired	2,377	15,577
Repayments of amounts borrowed	(280)	–
	2,097	**15,577**

Notes
to the Financial Statements (continued)

27 Analysis of changes in net debt	Note	At 1 August 2012 £000	Cash flows £000	Non-cash changes £000	At 31 July 2013 £000
Cash in hand		45,266	12,443	–	57,709
Endowment assets	12	4,214	(14)	–	4,200
Debt due within 1 year	15	(218)	(1,053)	–	(1,271)
Debt due after 1 year	16	(87,585)	(1,044)	(58)	(88,687)
		(38,323)	10,332	(58)	(28,049)
Current asset investments	14	800	–	–	800
		(37,523)	10,332	(58)	(27,249)

28 University pension schemes

The University has two principal pension schemes, the Universities Superannuation Scheme (USS) and the Lancashire County Pension Fund. Total pension costs for the group were £11,638k.

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independent directors appointed by the board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2013 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An 'inflation risk premium' adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2. 75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 years following the valuation then 2.6% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality	S1NA ("light") YoB tables – no age rating
Female members' mortality	S1NA ("light") YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates and the CMI 2009 projections with a 1.25% per annum long-term rate were also adopted. The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS 17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the on-going cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date, the Scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically, these increases had been based on the Retail Prices Index measure of price inflation.

Since the valuation effective date there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include;

- **New entrants** – Other than in specific, limited circumstances, new entrants are now provided benefits on a Career Revalued Benefits basis rather than a Final Salary basis
- **Normal pension age** – The normal pension age was increased for future service of existing members and new entrants to age 65
- **Flexible retirement** – Flexible retirement options were introduced
- **Member contributions** – Member contributions increased to 7.5% of salary for Final Salary section members and were set at 6.5% for Career Revalued Benefits section members
- **Cost sharing** – Cost sharing was introduced so that, in the event that the total contribution level exceeds 23.5% of salary, the employers will pay contributions to fund 65% of the additional cost and members would pay the remaining 35% to the fund as additional contributions
- **Pension increase cap** – Increases to pensions in payment or in deferment have been capped for service after 30 September 2011. USS will match increases in official pensions for the first 5% and if official pensions increase by more than 5%, then USS will pay half of the difference up to a maximum increase of 10%

The actuary has estimated that the funding level as at 31 March 2013 under the scheme specific funding regime had fallen from 92% to 77% (March 2012: 77%). This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

Notes
to the Financial Statements (continued)

28 University pension schemes (continued)

On the FRS 17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68% (March 2012: 74%). An estimate of the funding level measured on a historic gilts basis at that date was approximately 55% (March 2012: 56%).

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in Assumption	Impact on Shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

USS is a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The trustee believes that over the long-term, equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that it would be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing to make, it is necessary and appropriate for the trustee to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns. The strong positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities. The trustee believes that this, together with the on-going flow of new entrants into the scheme and the strength of covenant of the employers enables it to take a long-term view of its investments. Short-term volatility of returns can be tolerated and need not feed through directly to the contribution rate although the trustee is mindful of the desirability of keeping the funding level on the scheme's technical provisions close to or above 100% thereby minimising the risk of the introduction of deficit contributions.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the on-going flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer-term view of its investments. Some short-term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together, in an integrated form, the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

As at 31 March 2013, USS had over 148,000 active members and the institution had 1,193 active members participating in the scheme.

The total pension cost for the institution was £8,976k (2012: £8,706k). This includes £783k (2012: £733k) outstanding contributions at the balance sheet date. The contribution rate payable by the institution was 16% of pensionable salaries.

Lancashire County Pension Fund

The Lancashire County Pension Fund is a funded defined benefit scheme, with assets held in separate trustee administered funds. The total University contribution for the year ended 31 July 2013 was £2,742k (2012: £2,266k). The current employer contribution rate is 15.1%.

The pensions cost is assessed every three years in accordance with the advice of a professionally qualified independent actuary using the projected unit method. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation	31 March 2010
Actuarial method	Projected unit
Market value of assets at date of last valuation	£3,962M
Discount rate	6.75%
Pension increase per annum	3.0%
Salary scale increase per annum	5.0%
Proportion of member's accrued benefits covered by actuarial value of the assets	80%
Inflation CPI	3.1%

The following information is based upon the full actuarial valuation of the Lancashire County Pension Fund at 31 March 2010 updated to 31 July 2013 by a qualified independent actuary.

Financial assumptions	31 July 2013 %	31 July 2012 %	31 July 2011 %
Inflation CPI	2.4	2.1	2.9
Rate of increase in salaries	4.4	4.1	4.9
Rate of increase for pensions	2.4	2.1	2.9
Discount rate for liabilities	4.5	4.3	5.3

Post retirement mortality assumptions (members retiring in normal health)

Mortality tables used:

Males	103% S1PA CMI_2009_(1.25%)	(2012: 103% S1PA CMI_2009_(1%))
Females	96% S1PA CMI_2009_(1.25%)	(2012: 96% S1PA CMI_2009_(1%))

Life expectancy of future pensioners:

Males (females) currently aged 65	22.1 (24.8) years	[2012: 22.0 (24. 7) years]
Males (females) currently aged 45	23.9 (26.7) years	[2012: 23.8 (26.6) years]

The assets in the scheme (of which the University's share is estimated at 1.81%) and the expected returns were:

	31 July 2013 £000	31 July 2012 £000	31 July 2011 £000
Equities	2,548,071	2,753,920	2,692,660
Government bonds	342,723	215,150	217,150
Other bonds	1,023,202	761,631	608,020
Property	412,261	387,270	390,870
Cash	233,449	172,120	130,290
Other	407,294	12,909	304,010
Total market value of assets	4,967,000	4,303,000	4,343,000

Notes
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28 University pension schemes (continued)

The assets in the scheme (continued)	Long term rate of return expected at 31 July 2013 %	Long term rate of return expected at 31 July 2012 %	Long term rate of return expected at 31 July 2011 %
Equities	7.0	7.0	7.0
Government bonds	3.3	2.5	3.9
Other bonds	4.3	3.4	4.9
Property	5.7	6.0	6.0
Cash	0.5	0.5	0.5
Other	7.0	7.0	7.5

Analysis of the amount shown in the balance sheet	31 July 2013 £000	31 July 2012 £000	31 July 2011 £000	31 July 2010 £000	31 July 2009 £000
University's estimated asset share	89,921	76,529	74,072	64,775	55,333
Present value of scheme liabilities	(115,340)	(107,708)	(96,372)	(89,149)	(83,041)
Net pension liability	**(25,419)**	**(31,179)**	**(22,300)**	**(24,374)**	**(27,708)**

	Group	
Analysis of the amount charged to staff costs within operating surplus	2012/13 £000	2011/12 £000
Current service cost	(3,648)	(3, 162)
Past service cost	(11)	–
Settlements and curtailments	(3)	–
Total operating charge	**(3,662)**	**(3,162)**

Analysis of the amount charged to Interest payable	£000	£000
Expected return on scheme assets	4,218	4,489
Interest on scheme liabilities	(4,635)	(5,139)
Net charge	**(417)**	**(650)**

Analysis of the amount recognised in the statement of total recognised gains and losses (STRGL)	£000	£000
Actual return less expected return on pension scheme assets	8,487	(2,537)
Actuarial loss	(1,320)	(5,058)
Actuarial gain / (loss) recognised in the STRGL	**7,167**	**(7,595)**

	Group	
Movement in deficit during the year	2012/13 £000	2011/12 £000
Deficit in scheme at beginning of the year	(31,179)	(22,300)
Movement in the year:		
Current service cost	(3,648)	(3,162)
Employer contributions	2,672	2,527
Settlements and curtailments	(3)	1
Past service cost	(11)	–
Net charge on pension scheme	(417)	(650)
Actuarial gain / (loss)	7,167	(7,595)
Deficit in scheme at end of the year	**(25,419)**	**(31,179)**

Analysis of the movement in the present value of scheme liabilities	£000	£000
At beginning of the year	(107,708)	(96,372)
Current service cost	(3,648)	(3,162)
Interest on scheme liabilities	(4,635)	(5,139)
Contributions by scheme participants	(1,149)	(1,116)
Past service cost	(11)	–
Settlements and curtailments	(3)	1
Actuarial loss	(1,320)	(5,058)
Benefits paid	3,134	3,138
At end of the year	**(115,340)**	**(107,708)**

Analysis of the movement in the fair value of scheme assets	£000	£000
At beginning of the year	76,529	74,072
Expected rate of return on scheme assets	4,218	4,489
Actuarial gain / (loss)	8,487	(2,537)
Employer contributions	2,672	2,527
Contributions by scheme participants	1,149	1,116
Benefits paid	(3,134)	(3,138)
At end of the year	**89,921**	**76,529**

History of experience gains and losses	31 July 2013	31 July 2012	31 July 2011	31 July 2010	31 July 2009
Difference between expected and actual return on assets:					
Amount £000	8,487	(2,537)	4,824	4,853	(9,637)
% of scheme assets	9.4	(3.3)	6.5	7.5	(16.9)
Changes in assumptions (£000)	–	–	–	6,006	–
Experience (losses) / gains on scheme liabilities:					
Amount £000	(1,320)	(5,058)	(1,215)	(5,073)	7,982
% of scheme liabilities	(1.1)	(4.7)	(1.3)	(5.7)	9.6

Notes
to the Financial Statements (continued)

29 Capital and other commitments

	Group and University 2012/13 £000	Group and University 2011/12 £000
Provision has not been made for the following capital commitments at 31 July:		
Commitments contracted at 31 July	14,518	7,586

30 Access funds

	2012/13 £000	2011/12 £000
At 1 August	6	5
Funding Council grant	101	122
Interest earned	1	1
	108	128
Disbursed to students	(104)	(118)
Fund running costs	(3)	(4)
Balance unspent at 31 July	1	6

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.

31 Related party transactions

Due to the nature of the University's operations and the composition of the Council (including members drawn from the local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest and these are reported as required in each case via the Register of Interests that is annually updated.

All transactions involving organisations in which a member of the 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 President of the Lancaster University Student Union (LUSU) is an ex-officio member of the University's Council. Grants payable to LUSU are detailed below:

	Group and University 2012/13 £000	Group and University 2011/12 £000
Block grant	634	575
Specific grants	524	400
	1,158	975

32 Interest in subsidiary companies

The following information relates to the University's interests in the subsidiary companies consolidated in the financial statements. All companies have a financial year-end of 31 July.

Name of company	Country of registration	Nature of business	Percentage of voting rights held by University
Lancaster University Energy Services Ltd	England	Provision of energy supplies	100 *
Pinecrest Developments Ltd	England	Dormant	100
Lancaster University Consultancy Services Ltd	England	Provision of consultancy services	100 *
Lancaster University Business Enterprise Ltd	England	Exploitation of Intellectual Property	100 *
The Work Foundation Alliance Limited	England	Independent authority on work and its future	100 *
Lancaster University Developments Limited	England	Dormant	100
Lancaster University Enterprises Ltd	England	Holding company	100
Lancaster University Network Services Limited	England	Provision of broadband internet connections	100

* The companies marked with an asterisk are wholly owned by Lancaster University Enterprises Limited.

33 Post balance sheet events

No additional significant post balance sheet events have occurred that would require additional adjustment or disclosure in the financial statements, over and above those already disclosed.