Financial Statements 2017/18

UNIVERSITY OF LINCOLN

Contents

Key highlights
for the year ended 31 July 2018

Strategic Plan

The University's vision is that, by 2021:

'The University of Lincoln will be a global 'thought leader' for 21st Century higher education. We will be known for addressing the opportunities and challenges presented by the changing world by developing a new approach to education and knowledge development'.

Financial highlights

This year's results see sustained income growth and a robust balance sheet which continues to demonstrate the financial strength and sustainability of the University. Despite a small increase in the Home/EU undergraduate fee, 2017/18 has been a further challenging year with continuing cost pressures, particularly in areas such as payroll taxes and pensions. The University has, however, continued to invest in new Schools, buildings and facilities as we continue to work towards our strategic objectives.

	2018 £000	**2017** £000
Total income	152,296	143,110
Operating surplus	984	1,163
Net cash generated from operations	12,652	17,073
Net assets	192,475	156,378
Capital expenditure	10,845	53,119
Net debt	64,735	61,950

Teaching Excellence Framework

The University is now into its second year of our Gold award in the Teaching Excellence Framework (TEF). The TEF is a national independent assessment of teaching quality, student support and graduate success in higher education. Determined by an independent panel of experts, including academics, students and employer representatives, our Gold award means the University has achieved the highest grade for teaching quality found in the UK. The University of Lincoln is one of only 73 higher education providers of the total 296 entering the TEF to be awarded Gold.

League tables

In the Guardian University Guide 2019, our rank has risen to 22nd out of 121 institutions compared to 47th the previous year, a rise of 25 places, whilst in the Complete University Guide 2019 we are ranked 43rd. In the latest Times and Sunday Times Good University Guide, the University is placed 42nd out of 132 institutions.

National Student Survey (NSS) 2018

In the latest NSS students rated the University of Lincoln joint 7th out of 127 league table institutions for student satisfaction in the UK. Teaching on my course, learning opportunities, academic support, organisation and management and learning community were all ranked in the top 20%. The University of Lincoln scored higher than the sector average in every question category of the survey, which is completed by final year undergraduate students across the UK. Several of the University of Lincoln's courses were rated number one in the UK for their subject areas, including Chemistry, Pharmaceutical Science, Social Science and Sociology. Ten areas were ranked number one in one or more of the question areas and 18 were placed in the top 10% in one or more areas.

Medical School

In March 2018 the University of Lincoln, in partnership with the University of Nottingham, was successful in securing a bid to establish a Medical School on the Lincoln campus. The new Medical School will welcome the first cohort of undergraduate medicine students here in September 2019. Lincolnshire is the largest county not currently served by a Medical School and with 48% of Lincolnshire's population living in rural areas, the Medical School will make a huge difference to the Lincolnshire region, which will benefit from the establishment of this hub of medical expertise.

Agri-Tech Innovation

The University has long established connections with the Agriculture Industry of the region and will work with the Ceres Agri-tech Knowledge Exchange Partnership and four other universities with funding of £4.78m, to turn cutting edge research into commercially attractive technology aiming to encourage investment from the sector to a wide range of projects, including agricultural robotics and digital systems.

Awards

In 2018 the University's support for the Armed Forces Community was recognised by the Ministry of Defence by awarding the University of Lincoln the Gold Award in their Employer Recognition Scheme, with Lincoln being one of only three universities recognised.

Strategic Direction

Strategic Plan

The University's priorities and strategic direction over the next five year period of our development will build on our significant progress to date. The vision is that, by 2021:

'The University of Lincoln will be a global 'thought leader' for 21st Century higher education. We will be known for addressing the opportunities and challenges presented by the changing world by developing a new approach to education and knowledge development'.

Core Principles

In order to deliver this and ensure the University remains focused the plan is based around five core principles. These are:

- Teaching Excellence and a Great Student Experience;
- Graduate Success;
- Research with Impact;
- Strong Partnerships and Employer Engagement; and
- Dynamic, Engaged People.

We believe that each of these principles lie at the heart of the success of the University. Supporting these key principles are five themes which we believe encapsulate our needs in the environment that will shape our world over the lifetime of the plan. These are:

- Resilience and Sustainability;
- Ambition, Global Recognition and Growing our Reputation for Innovation;
- Creating an Inclusive Community;
- Enabling Technologies, Excellent Research and Teaching Spaces; and
- A new Vision for Education

Focusing our ambitions and activities around these elements we believe will take the University forward successfully. We aim to deliver the outcomes of our plan by each year making progress on those parts of our plan articulated in the strategic objectives.

External Environment

Political Environment

As the University continues to grow and develop we continue to be aware of the regulatory environment in which we operate. There have been significant changes in the HE environment over the last year with the disbanding of Higher Education Funding Council for England (HEFCE), a funder, and the formation of the Office for Students (OfS), a regulator, putting the student at the heart of the process. Research funding is administered by UK Research and Innovation (UKRI) which brings together the seven Research Councils, Innovate UK and Research England. These changes have created a number of challenges and opportunities for the University which in turn continue to focus our efforts on diversifying its income streams.

Reputation

The University's external reputation continues to grow with a strong reputation for leadership and innovation, particularly focused on partnership work with employers.

The University continues to be recognised for teaching quality and student experience. Lincoln was awarded Gold in the national Teaching Excellence Framework for delivering "consistently outstanding teaching, learning and outcomes for its students". We were one of only 73 higher education providers out of almost 300 entered into the TEF to receive Gold – the highest standard possible.

In the latest Guardian University Guide 2019 league table the University is ranked 22nd out of 121 institutions compared to 47th last year, an increase of 25 places, whilst we rank 43rd out of 131 institutions in the Complete University Guide 2019. In The Times and Sunday Times Good University Guide 2019 we are ranked 42nd out of 132 institutions and placed in the top 10 percentile for student experience.

Competition

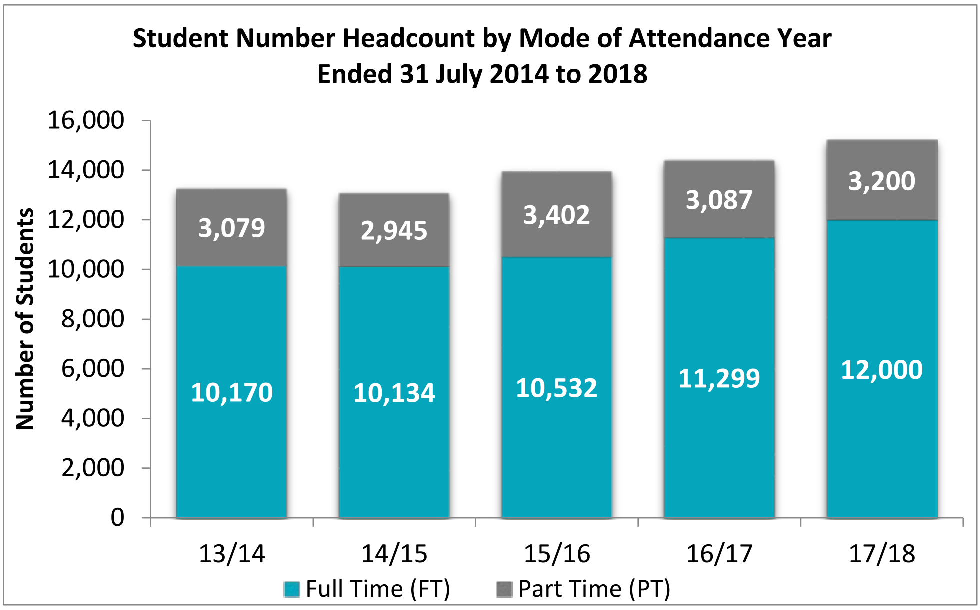
The University's key competitors continue to be located mainly in major UK cities. The makeup of this competitor set is however changing as the University moves up the league tables and our profile and portfolio changes.

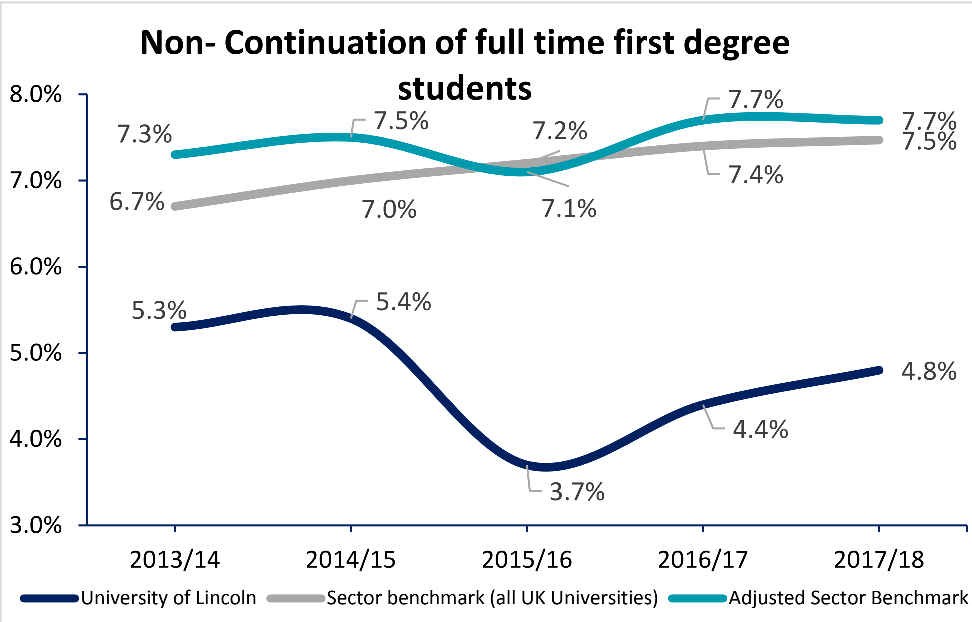
Demand

The University continues to outperform the sector on applications whilst also identifying it as a risk. We continue to make great efforts to meet targets on recruitment and retention. Demand for places at Lincoln remains high and we continue to see a year on year increase in student numbers due to both growth in existing subject areas and the development of new subject areas, particularly in STEM provision.

The University also continues to perform strongly in retaining students, scoring significantly above the sector benchmark on the Office for Students Performance Indicators relating to student retention.

The graphs below demonstrate these trends.





The adjusted sector benchmark reflects the student profile and subject mix of the University of Lincoln.

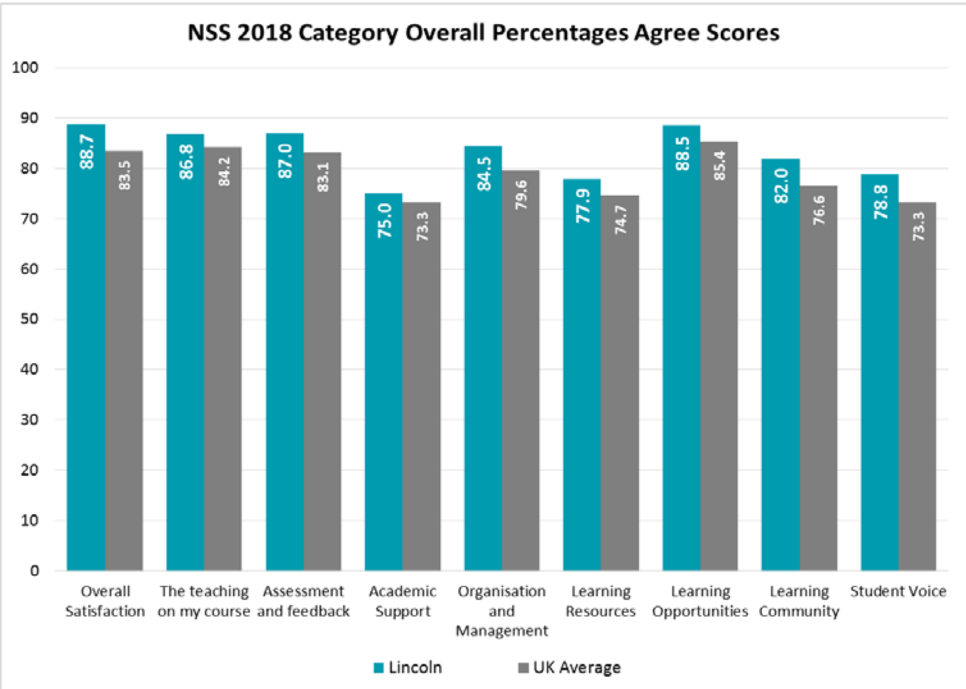
Review of the Year

Teaching Excellence and a Great Student Experience

Students are at the heart of everything we do. The University is now into its second year at Gold status in the Teaching Excellence Framework (TEF). The TEF is a national independent assessment of teaching quality, student support and graduate success in higher education. Almost 300 higher education providers took part in the assessment, results of which were announced by the Higher Education Funding Council for England.

Determined by an independent panel of experts, including academics, students and employer representatives, our Gold award means the University has achieved the highest grade for teaching quality found in the UK. The University of Lincoln is one of 73 higher education providers of the total 296 entering the TEF to be awarded Gold.

In terms of student satisfaction, Lincoln was ranked joint 7th in the UK out of 127 league table institutions according to analysis of the 2019 National Student Survey by the Times Higher Education. For questions relating to teaching on my course, learning opportunities, academic support, organisation and management, and learning community, Lincoln was ranked in the top 20% on each. The University of Lincoln scored higher than the sector average in every question category of the survey, which is completed by final year undergraduate students across the UK. Several of the University of Lincoln's courses were rated number one in the UK for their subject areas, including Chemistry, Pharmaceutical Science, Social Sciences and Sociology. Ten areas were ranked number one in one or more of the question areas and 18 were placed in the top 10% in one or more areas.



Aligned to the strategic plan is the University's teaching and learning implementation plan which has been designed to provide a clear framework for the next five years to ensure that our teaching and digital ambitions are achieved. We have set ambitious goals around our student experience, which include developments on campus, in the digital support we offer, in the breadth of our degree range and in the innovation we bring to learning and teaching.

On quality assurance, during the last academic year the University's Office for Quality, Standards and Partnerships (OQSP) has continued to work hard to maintain and enhance the University's robust quality control systems. Alongside this, the University continues to develop its use of data to create success and improve and enhance its programme development and student experience.

Case Study: - Student Reviewers

As part of the 'Student Reviewers' academic opportunity supported by the Students' Union, all students are invited to be full members of validation, revalidation and Periodic Academic Review (PAR) panels within the University. To prepare students to undertake this role, support and training is provided by the Office of Quality, Standards and Partnerships who recently created a series of support videos. As well as helping to improve the University's programmes for current and future students, the opportunity helps students with the development of broader skills, such as questioning style, planning and organisational skills, professionalism and verbal articulation. During the 2017/18 academic year, 77% of the University's portfolio of taught programmes had student involvement in curriculum development and/or review activities.

Our campus has continued to be a high class home for our staff and students. After the successful delivery of three major buildings last year (Isaac Newton, Sarah Swift and Cygnet Wharf) the buildings have been warmly received by our academic community. The Cygnet Wharf accommodation was over-subscribed within hours of it becoming available and Isaac Newton won 'Best Education Building' at the Local Building Association regional awards. Since then, investment has followed in the remodelling of the entire third floor of the Alfred Tennyson building along with environmental and aesthetic enhancements to the building's façade. Additionally, design work is now underway on the proposed new Medical School, plans for which were recently shared and well received with the General Medical Council.

Significant progress has been made with the Residential Accommodation Strategy in order to meet the demand of our successful student growth figures. A developer led scheme, Viking House, completed in September 2018 and this is supplemented by other smaller projects which provide accredited student accommodation. Additional large residential schemes are being progressed in partnership with developers and these will be delivered in the next two years.

Improving the utilisation of the estate has become increasingly important this year. Research and Enterprise are the first department to move to an agile working office, with other departments set to follow in 2019. A network of modern social learning spaces has been expanded across the estate. These have proved to be very popular with staff and students. Finally, development work is underway to create a new teaching demonstration room where we can blend physical and digital learning pedagogies.

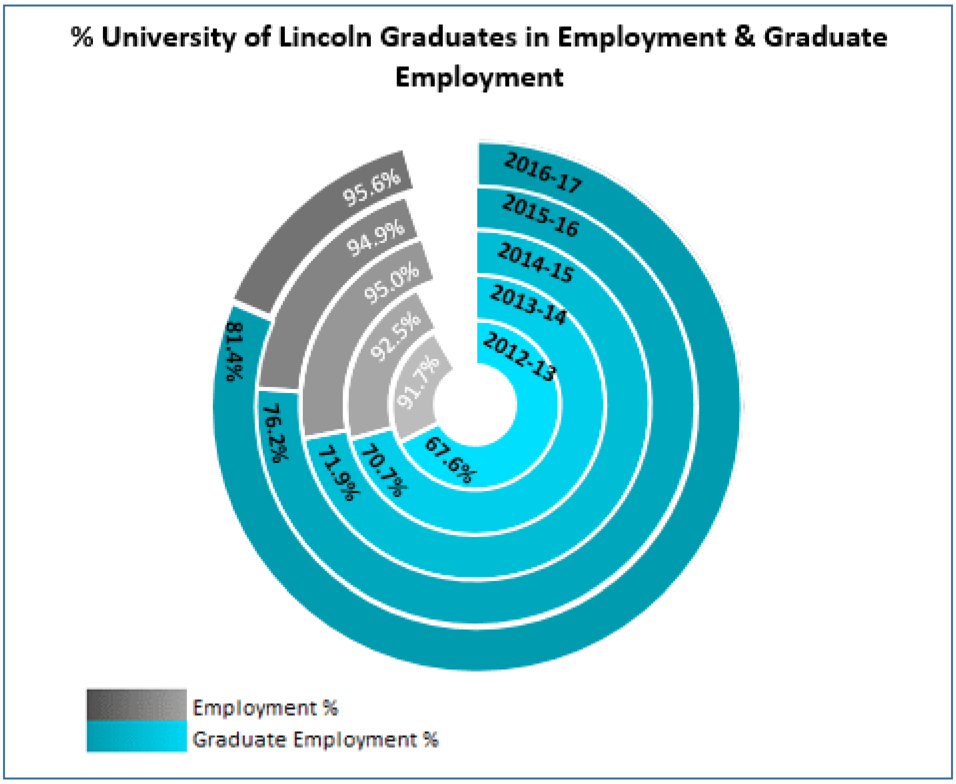
Graduate Success

Our ambition to create confident, knowledgeable graduates whose reputation makes them sought after by employers across the globe is key to our future impact and success. The economic climate continues to provide challenging employment conditions for all graduates; despite this our students continue to have great employment prospects.

The Destinations of Leavers Survey (DLHE) return shows that 95.6% of our students graduating in 2016/17 were in employment or further study within six months of completing their course and 81.4% had secured graduate level roles. This reflects a year on year improvement in this area.

The Careers & Employability Team continues to provide an employer led and informed service both centrally and within the distinct curriculum areas. The new Careers & Employability Centre in the library has seen unprecedented levels of engagement from both students and employers alike, including Google, Sky, Morgan Stanley and PwC amongst others. We continue to align to the institutional key strategic priorities and agendas such as widening participation and the TEF, and working closely with the Business Incubation and Growth unit ensures that entrepreneurship and self-employment is increasingly seen as a viable graduate destination.

The graph below sets out the five year trend in both overall employment and graduate employment.



Research with impact

The University of Lincoln is producing world leading research across many subject areas. More than half (53%) of the research submitted by the University to the national Research Excellence Framework 2014 was rated as internationally excellent or world leading.

The University's academic staff includes more than 75 substantive professors, who support a thriving research culture and a high-quality student experience. There are more than 40 research centres and research groups, investigating subjects ranging from vision engineering and autonomous systems to conservation and cultural heritage. Major research projects from the University benefit society in areas as varied as agri-food technology, medical imaging for cancer diagnosis, anti-microbials, heritage, treatment of insomnia and global contamination of water.

A multi-disciplinary approach ensures many projects involve experts from across the University's different Schools and Colleges.

Case Study: - Proton Beam Therapy

Proton Beam Therapy is the latest tool in the treatment of cancer with radiotherapy as the NHS is soon to open two new centres in Manchester and London. Revolutionary though this treatment is for difficult tumours and most cancers in children, present approaches allow only robust treatment and not optimum and fully adaptive treatments. The solution lies in being able to image the patient's internal anatomy using the same proton radiation as to treat. Lincoln leads the world in developing instruments that provide clinical-quality proton imaging. Following on from a £1.8m Wellcome Trust grant, we have recently been awarded a £3.2m EPSRC grant to install a proton CT system at a new NHS proton beam therapy (PBT) centre at The Christie NHS Foundation Trust – the first time such a system will be installed in an operational clinic.

Strong Partnerships and Employer Engagement

Lincoln is internationally recognised for our innovative approach to industrial partnership (public, private and third sector). This has previously been highlighted through the Government's Wilson and Witty reviews, and the publication of the 'Mind the Gap' report examining how universities across the sector can best support industrial collaboration.

Our successful relationship as one of Siemens' global principal partners continues to flourish with their international training centre co-located in the School of Engineering, on the Brayford Pool campus, a growing research portfolio and nearly 50 engineering graduates employed in the local business unit. Building on the success of our partnership with Siemens, we have launched six new schools of STEM in the last six years, all co-designed with industry. Our partnerships continue to mature with organisations like the Lincolnshire Co-operative, particularly as the Lincoln Science & Innovation Park continues to grow. The Boole Technology Centre on the Innovation Park is filling faster than we anticipated and increasing levels of industrial co-location, driving even higher and wider levels of collaboration.

Our role as an 'active anchor institution' is critical to the growth aspirations of Greater Lincolnshire. In seeking new ways to support and engage SMEs to further the translation of our research and drive regional economic growth, we continue to deliver a £2.1m European Structural and Investment Fund (ESIF) scheme to deliver an innovation support programme across our region. We have worked hard to influence the 'Midlands Engine', playing a leading role in the development of innovation strategy, particularly around the agri-food sector.

Case Study: - Industry Defined Projects

Students work directly with industrial partners on real-world problems defined by the company during their Level 2, 3 and 4 studies. These have included projects such as the redesign of a clutch mechanism for Ford and the redesign of a fuel injector for Siemens – the latter ending in a design patent. Some projects have also been presented at international conferences. This allows students to not only be exposed to cutting edge technologies and design challenges, but also helps develop soft skills such as commercial awareness, communication and project management.

Dynamic Engaged People

The University's people element of the strategic plan continues to highlight the collaborative efforts between the relevant university teams, the Students' Union and the wider university community in support of the overall university strategic agenda.

Our workforce continues to grow as the University develops further with 2017 experiencing overall growth of 6% in our core workforce. Our increasing establishment sees a number of employees potentially affected by the UK's imminent departure from the EU. As such, new information has been developed to offer additional support and guidance.

The biennial staff survey forms a key tool in providing the University with the means to measure and monitor organisational performance in relation to a number of people indicators such as; workforce alignment with the University's strategic direction, development, pay & reward and health & wellbeing. In November 2017 we increased staff survey participation levels to our highest response rate yet to provide a robust set of results on which to take strategic decisions and make progress. The University has been compared to 47 other HEIs in relation to being a *'good place to work'*, and when the scores are ranked in descending order, the University is positioned in joint 4th place. When ranked against all other public and private organisations within the survey provider's database, the University is placed in the top 3%. Taking action on the results whilst continuing to engage and work with our staff is an important part of this survey process. We continue to support area managers directly as they work with their teams at a local level, whilst at an institutional level we have invited staff to take part in a series of focus groups to help identify reasoning behind the survey answers, in order to best shape future improvements.

The final offer made as part of the national 2017 pay negotiations was accepted by both Unison and UCU. The offer was for a base pay uplift of 1.7% on all pay spines effective from 1 August 2017 with higher increases applied to the base of the spine in order to align it with the voluntary Living Wage Foundation rates as applied at the time. As with many other universities in the sector, it was agreed prior to the release of the updated Living Wage Foundation rates in October that the University would voluntarily track the recommended rate for all workers on the pay spine to a minimum rate of £8.75 per hour. This rate is now currently applied and will be reviewed again in April 2019.

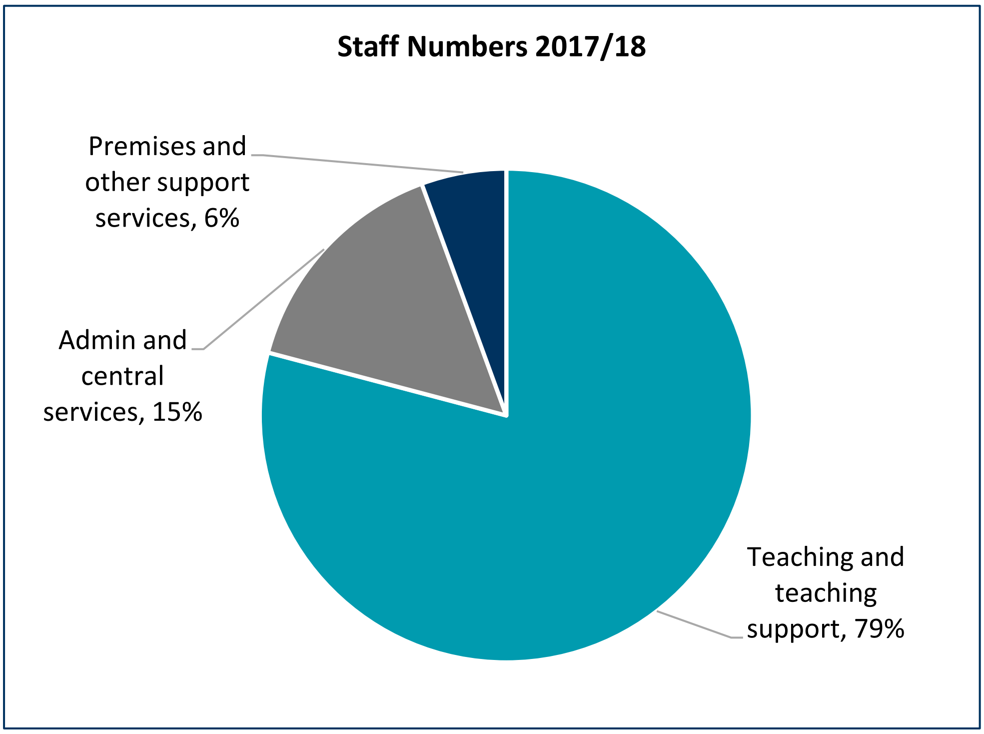
2017/18 represented a very challenging year for the sector in respect of the focus on the sustainability of the defined benefit pension arrangements in place. Following a significant review, the University Board approved a decision in the summer of 2017 to close the LGPS pension scheme to new members to both control cost and risk attached to the continuation of operating a defined benefit scheme in the modern workplace. The working group operated successfully throughout 2017 in order to make the change effective from April 2018 and successfully procured the University and Colleges Retirement Savings Scheme (UCRSS) as a master trust to be the new professional services pension scheme, with matched employer contributions of up to 10% (compared to the previous scheme's 25.3%) and a more flexible approach to saving for retirement. An enhanced life assurance option was also separately procured offering an improvement to the current benefit offered. The University has become the third known in the sector to take this step and look to control the potential pension scheme deficits for the future and cap employer contribution rates whilst seeking to invest further in the reward, engagement and wellbeing agendas that will create an outstanding workforce culture.

The annual Merit and Achievement Awards continue to be our flagship recognition event, celebrating the success of teams and individuals that have performed at an exemplary level, contributing to the University's values, behaviours and strategic mission. 2017 saw a review in categories in line with a focus on the University's reputation, both internationally and in the local community, with record levels of engagement.

A community-based partnership was formed with Lincoln City Football Club to further develop our links. Building on the success of the football club, the University 'Uni Imps' scheme offers a number of tickets for each game for University staff, students, friends and family. The income generated from the ticket sales for 2017 has been donated to support student sports and societies with the original funding sourced from National Insurance contribution savings from increased take up of salary sacrifice schemes. This partnership has additionally led to volunteering opportunities for students, club based guest lectures and visits from players and trophies to the University.

The community approach has also been applied internally with new health and wellbeing initiatives implemented to collegiately support a rising trend in mental health issues, through development sessions and preventative support. This further enhancement to the employee reward package was also supported by the launch of "Linc-on" as a reward platform hosting national lifestyle discounts and internal recognition mechanisms.

As the University grows and develops so does our workforce with average total staff numbers increasing to 1,672 full-time equivalents during the year compared to 1,576 in the previous year. A breakdown by area is set out in the graph below.



Key Performance Indicators

The University has adopted a range of Key Performance Indicators (KPIs) through which we monitor our activities and measure our success, taking appropriate actions to rectify any areas of concern.

They are aligned to the core principles of the strategic plan, as set out below, and have challenging targets across the plan period based on our increasing expectations.

Core Principles of Strategic Plan	Objective	Measure of Success
External positioning	Improve external rankings position	League table position
		World rankings position
Excellent teaching and a great student experience	Improve National Student Survey (NSS) results	NSS Q22 – overall satisfaction
	Increase student participation through the Widening Participation Agenda	Young full-time degree entrant from state schools of colleges
		Students from low participation neighbourhoods
	Ensure high levels of completion benchmarked against the sector	Students completing their study year
		Non-continuation students
Graduate success	Increase our levels of graduate employment / progression to further study	Students in to employment and further study
		Students in to graduate employment
Excellent research with impact	A further step change improvement in the Research Excellence Framework (REF)	Staff eligible to be submitted to the REF
	Increase numbers of research outputs, repository depositions and citations	Average number of citations per year
Strong partnerships and employer engagement	Increase the number of programmes delivered with external partners	Increase the number of students by headcount
	Increase the number of start-ups / enterprises	Number of start-ups / enterprises
		Number of sustainable start-ups / enterprises still existing after 3 years
Dynamic engaged people	Continue to develop excellence in teaching	Annual recognition for excellence / innovation in teaching
		Number of case studies per year of excellence / innovation in teaching
	Continue to develop excellence in research	Number of case studies per year of excellent research
	Continue to improve in service excellence	Number of case studies per year of innovation within our Professional Services
		Internal customer satisfaction survey scores
Financial environment	Ensure financial resilience and sustainability of the University	Total income
		Cash flow as a % of total income
		Ratio of net debt to net assets

Future Prospects

The University, like most Higher Education institutions, is continually reviewing how it operates its business in response to the ongoing challenges of the current economic and political climate. Government policy, particularly with regards to student funding streams and immigration, continues to create uncertainty. In addition to this, the impact of Brexit is still not yet fully understood. Movements in the financial markets and the weakening of sterling post-Brexit referendum is already putting upward pressure on costs. The University monitors the operating environment and manages these changes to take advantages of opportunities arising and to continue to grow in a challenging climate.

The University has ten year forecast plans that ensure sufficient surpluses and cash are generated for investment in research, development strategies and the physical and technological infrastructure. In order to maintain our financial stability, we will need to continue to grow and diversify our income streams, while planning and controlling cost pressures. We need to do this whilst enhancing our reputation, continuing to build on our successes and ensuring that we continue to invest in our strategic objectives. We recognise, in the current economic climate, the need to develop innovative partnerships and find creative funding solutions and will continue to seek out such opportunities.

During the financial year 2017/18 we have invested in new schools and programmes, primarily within the College of Science. It has been another successful year with sustained income growth and good levels of cash generation allowing us to invest heavily in the infrastructure of the University.

With our continued rise in the national league tables and the results of the Teaching Excellence Framework (TEF), it is anticipated that this will bolster demand and create opportunities for us to grow income and invest further in teaching, facilities and the overall student experience.

Overall, the future prospects of the University are exciting in this ever-changing and challenging environment. The completion of the current phase of the campus development will deliver new purpose-built facilities to support education, research and growth across the region. This will enable current and future generations of students to benefit from the latest equipment and laboratories, supporting the University's distinctive student experience and engagement agenda. The continued growth of the new Schools and subject areas, together with the opportunities presented by both the changing economic and political climate and the TEF, deliver an excellent platform for the future.

Financial review
for the year ended 31 July 2018

Summary and Financial Highlights

Summary

This year's result represents another year of sustained progress. Continued income growth, strong cash generation and a robust balance sheet demonstrate the financial strength and sustainability of the University.

This has enabled the University to invest heavily in both student and staff facilities to improve the overall student experience and enhance research quality.

Financial highlights

- Total income of £152.3m, up 6.4%
- Operating surplus for investment and growth of £1.0m (see below)
- Expenditure on academic departments and academic support of £84.1m, up by £5.8m
- Net assets as at 31 July 2018 of £192.5m, up from £156.4m
- Capital investment 2017/18 of £10.8m, with £120.7m invested over the last five years
- Cash generated from operating activities of £12.7m, being 8.3% of income

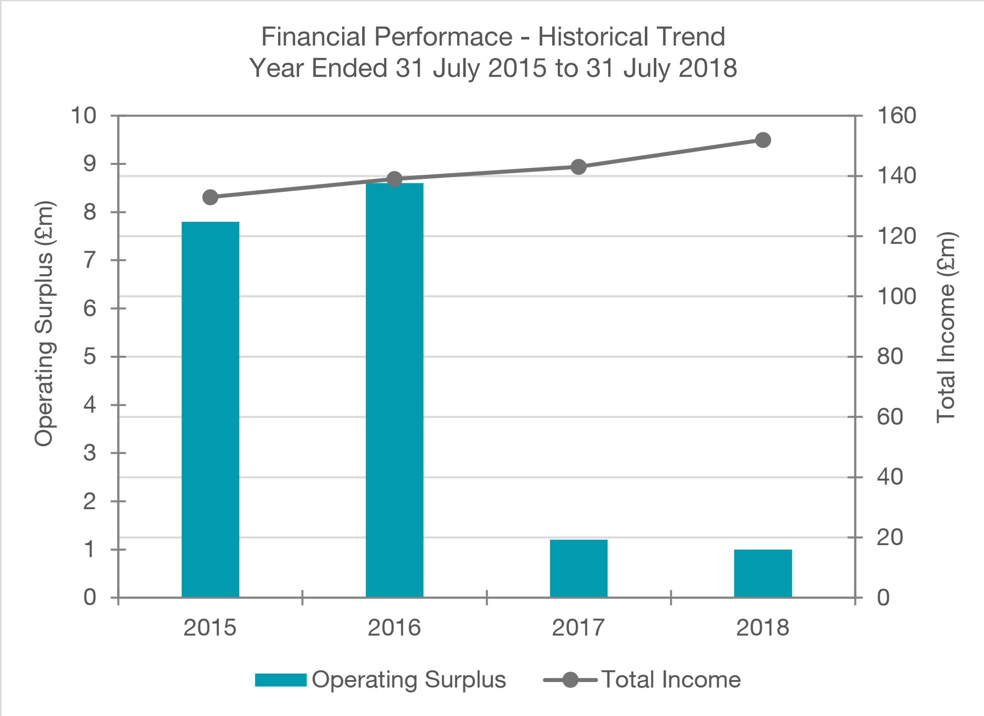
Income and Expenditure

Operating surplus

As a consequence of the transition to FRS102 in 2015/16, the statutory reported 'Surplus before tax' is much more volatile and less comparable, both over time and across the sector.

The table below sets out the University's view of its underlying operating surplus, along with an adjusted earnings before interest, tax, depreciation and amortisation (EBITDA). We consider that this measure gives a more useful view of underlying financial performance.

	2018 £000	2017 £000	2016 £000	2015 £000
Surplus before tax	**811**	**2,459**	**7,707**	**10,485**
Less capital grants recognised in year	(1,317)	(1,700)	(5,965)	(3,524)
Add net interest charge on pension schemes	1,231	1,179	1,402	1,519
Add/less fair value loss/(gain) on financial instruments	31	(1,180)	4,895	(2,712)
Add staff restructuring costs	366	553	303	1,042
Less/add USS deficit recovery (credit)/charge	(138)	(148)	237	1,017
Operating Surplus	**984**	**1,163**	**8,579**	**7,827**
Depreciation	9,645	8,420	7,595	6,962
Interest payable on bank loans	3,441	3,358	2,738	2,529
Interest received on bank deposits	(294)	(385)	(356)	(274)
Adjusted EBITDA	**13,776**	**12,556**	**18,556**	**17,044**



The operating surplus has decreased slightly from £1.2m to £1.0m, as the University continues its substantial level of revenue reinvestment to develop facilities and enhance the student experience. This includes:

- Further investment in the recently opened Schools within the College of Science, which are still developing and growing to full size. This investment includes the recruitment of new academics for specific fields, teaching support and teaching equipment;
- Investment in research academics, facilities and equipment to support the research engaged teaching agenda;
- Academic recruitment to reduce the student to staff ratios (SSRs) and improve the quality and quantity of student academic interactions;
- The full year running costs associated with the new teaching and research facilities including the purpose-built Isaac Newton and Sarah Swift Buildings.

Non-operating items

Certain items have been excluded from the operating result set out above due to either their treatment under FRS102 or their non-operational nature, as explained below.

- The table above starts at the 'Surplus before tax' as set out on the income and expenditure statement on page 35. This therefore excludes the market adjustments, being the change in fair value of investment property and the actuarial gains and losses on the pension scheme. These are non-operational and, to a significant extent, out of the University's control;
- In accordance with FRS102, capital grants are recognised within income once any associated performance criteria have been met. These grants can therefore be both large and sporadic and have been excluded from the operating result;
- The interest charge on the pension schemes has been excluded. This mainly comprises a charge related to the net deficit in the Local Government Pension Scheme and is considered to be non-operational;

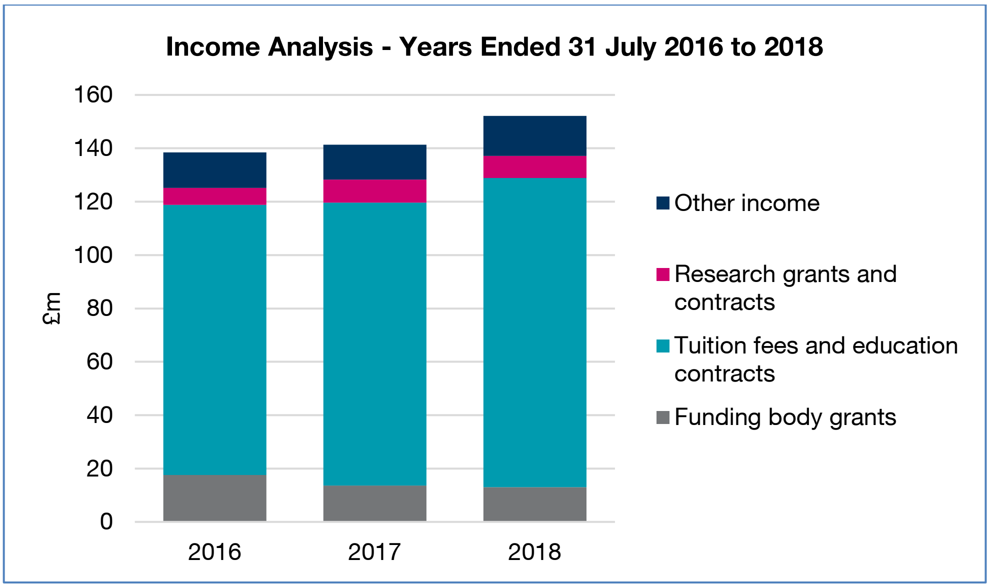
- The gain or loss on financial instruments have been excluded. This is driven by changes in the financial markets and is outside of the University's control;

- Whilst staff restructuring is an ongoing activity of any organisation, these costs have also been excluded from operating surplus for comparability, due to their varying size;

- The USS pension scheme recovery plan was formally approved in 2014/15 which resulted in a one-off charge to the consolidated statement of comprehensive income and expenditure. This has been excluded on the basis that it was a one-off material item as has the annual charge due to changes to the discount rate which is outside the University's control.

Income

The University's income is derived principally from tuition fees, grants, research and other activities as set out below:



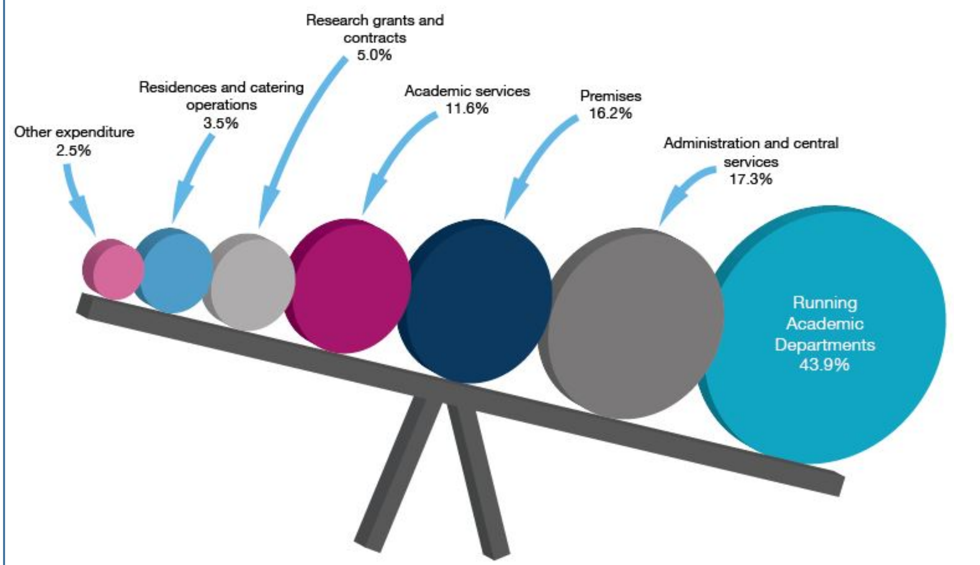
Tuition fees and educational contracts includes both Home/EU and International students. Full time international tuition fee income accounts for 9.2% of the total tuition fees (2016/17: 11.6%). This has reduced year-on-year largely due to the increasing competition in the global market and the challenges faced in attracting international students. In addition, our continued success in the full-time Home/EU market (11.6% year on year growth) has meant International fees have become a smaller proportion of our overall fee income.

Funding body grants includes £1.3m (2016/17: £1.7m) in respect of capital funding received and recognised in the year. This was primarily from HEFCE to support the development of teaching and research at the University.

Other income includes revenues from residences, catering, conferences, property rental, consultancy and other sundries.

Expenditure

The graphic below sets out the profile of the University's major expenditure items.



Academic expenditure accounts for 55.5% (2016/17: 55.7%) of total expenditure. This includes student support services such as the library and student IT systems.

The University's total expenditure, excluding depreciation, amortisation, interest and other finance costs, increased by 7.5% between 2016/17 and 2017/18. All costs have been closely monitored and controlled with the increased income from tuition fees invested primarily in improving the student experience and student facilities. Substantial investment has been made in the Colleges supporting the research-led teaching agenda, along with significant levels of bursaries and scholarships.

Balance Sheet

Total net assets

Total net assets are £192.5m, which is an increase of £36.1m compared to the prior year. The increase is primarily due to the decreased deficit in respect of the Local Government Pension Scheme (further detail on the pension deficit is set out later in this section).

Fixed assets

Fixed assets have increased to £284.0m (2017: £282.8m), with capitalised expenditure during the year of £10.8m. Key capital investments include:

- Completion of the Cygnet Wharf 442 bed student accommodation development;
- Reconfiguration and adaptation works to existing buildings (following the academic moves arising from the completion of the new Isaac Newton and Sarah Swift Buildings in 2016/17);
- The continued substantial investment in information technology as part of a multi-year programme to renew multiple key business systems.

In addition, the University continues to invest in the overall quality and attractiveness of the physical estate and the technological environment.

Our capital expenditure programme over the years has been sustained through strong cash generation from operations and capital grant assistance, balanced with considered and responsible external borrowings.

Net current assets

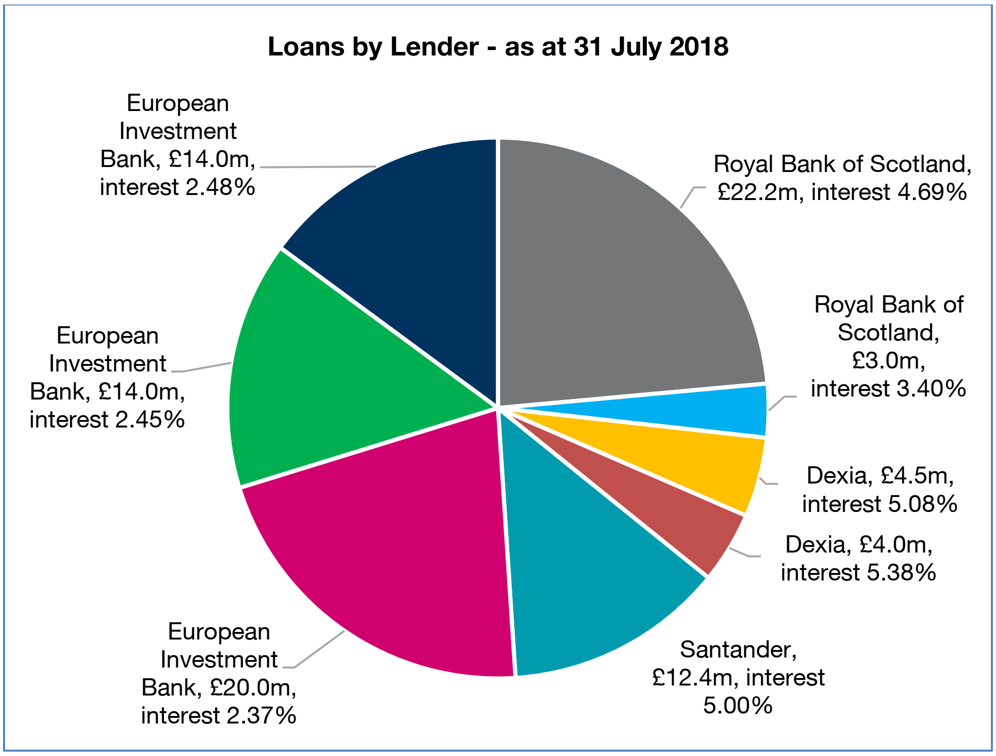
Net current assets have stayed at a similar level to the prior year at £12.3m (2017: £12.8m).

Cash and current asset investments (bank deposits accounts) of £29.3m have decreased from the prior year, as planned, following the completion of our major capital building programme and further revenue investment to develop facilities and enhance the student experience.

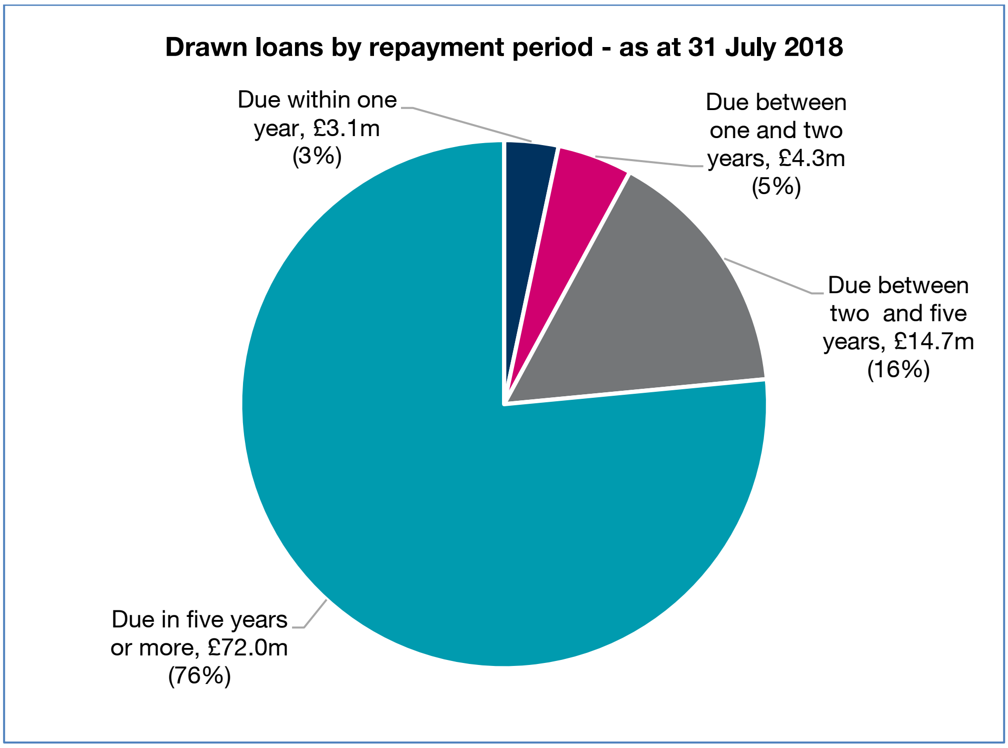
Long term liabilities

The University's long term liabilities primarily comprise bank borrowings. As at 31 July 2018 borrowings amounted to £94.1m (2017: £96.7m).

The graphs below set out further detail on the composition of borrowings by lender, interest rate, and repayment profile.



As at 31 July 2018 the University had fixed the interest rate on all of the borrowings.



None of the University's borrowings are repayable on demand providing that all loan terms are complied with and no financial covenant breached. There have been no breaches of any of the University's loan covenants during the year and none are expected in the next 12 months.

Pension liability

The pension provision on the balance sheet reflects the University's net liability in respect of the Local Government Pension Scheme (LGPS), along with the University's contractual commitment to fund past deficits within the Universities Superannuation Scheme (USS).

The LGPS net liability has decreased to £11.6m (2017: £42.6m). The provision is based on assumptions recommended by the University's actuary in accordance with FRS102.

The funding position has improved during the year primarily as a result of a change in financial and demographic assumptions in the latest actuarial report.

The provision relates to the shortfall of assets in the scheme required to fund future pension liabilities, and does not relate to any significant payment liability arising in the short or medium term.

The University's employer contribution rate is 25.3%. This comprises of 19.9% in respect of the future service rate and 5.4% deficit recovery repayment. The change in the deficit recovery repayment is based on the 15 year recovery plan updated by the latest full formal actuarial valuation, 31 March 2016.

The University does not anticipate making lump sum payments in to the scheme, and will endeavour to reduce the deficit through increased contribution rates, which have been factored in to the University's long term financial plans.

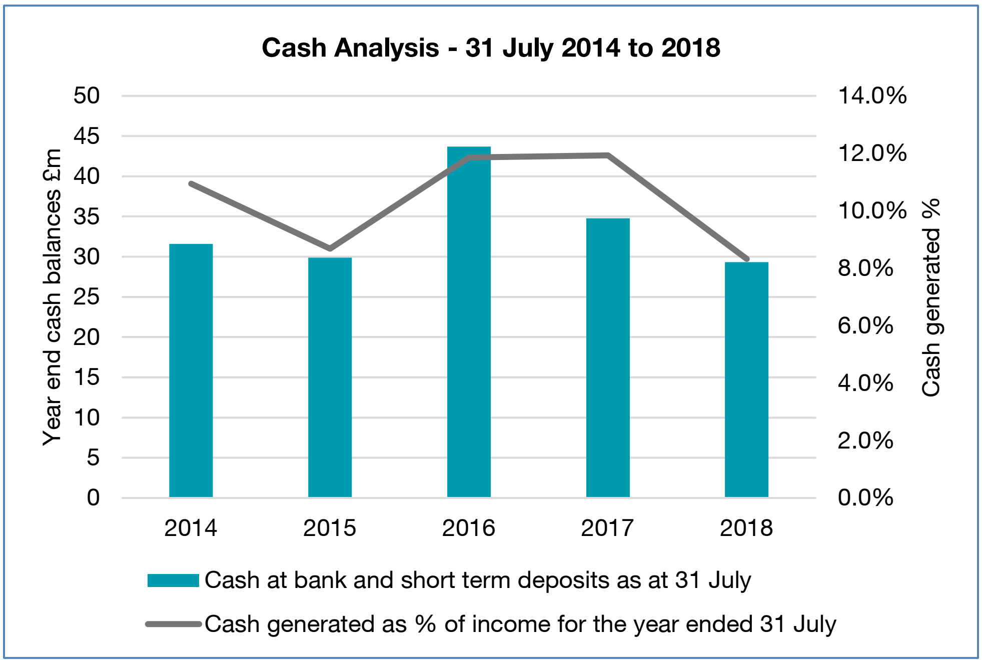
Cashflow

Cash generated and cash balances

The consolidated cashflow statement shows the net cash inflow during the year from operating activities was £12.7m (2017: £17.1m). Cash at bank and short term deposits decreased from £34.8m to £29.3m.

Cash generated from operating activities was 8.3% of total income (2017: 11.9%).

The graph below sets out cash balances and cash generated as a % of income over a five year period.



Surplus cash balances are invested in line with the University's Treasury Management Policy, which is reviewed and approved by the Board of Governors.

As at 31 July 2018, 46% (2017: 77%) of cash, cash equivalents and short term investments were deposited with UK banks and building societies. These banks and building societies met the three major credit rating agencies (Moody's, Standard & Poor's and Fitch) minimum ratings as determined by the Treasury Management Policy. The remaining 54% (2017: 23%) was invested in sterling money market funds which are AAA-rated by both Standard & Poor's and Fitch.

Treasury Management and Financial Instruments

Treasury management

The University's treasury operations are managed within parameters defined formally and regularly reviewed by the Board of Governors (the Treasury Management Policy).

The University's treasury activity is routinely reported to the members of the Board of Governors and is subject to review by the internal auditors.

Financial instruments

The University's financial instruments comprise cash at bank, deposits repayable on demand, fixed term deposits, and fixed rate loans repayable to banks. The sole purpose of these financial instruments is to provide finance for the University's operations.

The main risks arising from the University's financial instruments are interest rate, security and liquidity. The risk is considered to be effectively managed through the University's Treasury Management Policy.

As previously noted, as at 31 July 2018 the University has fixed the interest rate on all borrowings. All interest rate fixes are arranged directly with the lender.

Further analysis of the University's borrowings at 31 July 2018 is set out in note 19 of these financial statements.

The University does not have any other hedges or derivatives.

Going Concern and Liquidity

The University ended the year with cash resources of £29.3m and bank borrowings of £94.1m, leaving net debt standing at £64.8m. All of the University's external funding is long term in nature, with 96.7% repayable beyond one year, and 76.5% repayable beyond five years.

The University regularly reviews its forecasts of cash flows and believes that it will continue to comply with all bank loan covenants. Current forecasts, taking into account reasonable sensitivities in relation to key risks, show that the University can operate within its current facilities and available headroom.

On this basis, the Board of Governors consider that the University has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of signature of these financial statements.

Public Benefit: The University as a Charity

Mission

'A University looking to the future' where we serve and develop our local, national and international communities by creating purposeful knowledge and research, confident and creative graduates, and a dynamic and engaged staff team.

In formulating the Strategic Plan for 2016-2021, staff and students across the University reflected on and debated the statement above, and concluded that it clearly articulated the mission of the University of Lincoln. The Strategic Plan commits to building on our reputation for excellent student engagement which prepares our graduates for their future, and to working closely with our communities to ensure valuable impact from our research to make a meaningful contribution to our world.

The University is committed to developing and supporting research that enhances our futures, is purposeful and leads to improvements in society. We will also address research challenges from our locale that have global significance such as, but not exclusively, personalised health, agri-food technology, creativity, digital arts and digital archives, and rural communities. We aim to help our students develop into highly engaged, employable and creative-thinking graduates who contribute to the development of society and the economy.

Charitable status

The University of Lincoln is a Higher Education Corporation and, as such, is an exempt charity with the charitable objects of providing higher education and further education, and of carrying out research and publishing the results. The University is regulated by the Office for Students as the principal regulator of English HEIs as charities. The members of the Board of Governors are the trustees of the charity. The role of the Board and the responsibilities of the Governors are described in the statement of corporate governance and internal control later in this section. In exercising these responsibilities, the Governors have had due regard to guidance issued by the Charity Commission.

Delivery of charitable objectives

The charity's direct beneficiaries are the students enrolled to the University's awards; and those who benefit from the research undertaken at the University. The Strategic Plan provides a number of examples of how the delivery of our institutional objectives contribute to the wider public benefit, including in the areas of engagement with businesses and the community; contribution to the local economy, working with partners including charities and the health service; stimulating and supporting enterprise and graduate employability; and focusing on our own environmental footprint.

The University has pubished a paper, 'The New Civic University', which gives further examples of how the University contributes to the public benefit. The extract below sets out the University's impact at a glance.

The New Civic University – a university working with its communities

- £430m contributed to the UK economy in 2015/16
- More than 5% of all jobs in Lincoln are supported by the University
- One in every six working age residents in the city is either a student, a direct employee of the University, or has a job that is directly linked to the University
- Fifth largest revenue generator in Lincoln
- Fifth fastest growing higher education institution in the UK based on increases in income since 2010
- Students' expenditure on goods and services outside the University campus supports an estimated £195m in Gross Value Added nationally, supporting an estimated 750 jobs in the city

The full document can be viewed on the University's website:

https://www.lincoln.ac.uk/home/media/responsive2017/documents/the-new-civic-university-university-of-lincoln.pdf

Admissions Policy and Student Support

The University welcomes difference and diversity among its students and seeks to help each one to flourish academically and personally through its programmes. Our admissions policy is therefore governed by two principles: the applicant's ability to benefit from the chosen course, and fair and equal treatment for all applicants.

In common with other HEIs in England, the University of Lincoln charges tuition fees which, for UK/EU students, are subject to statutory regulation through the Office for Fair Access (OFFA) and from 1 April 2018 the Office for Students (OfS). For the academic year 2017/18, the standard fee for all new full-time undergraduate UK/EU students was set at £9,250, in line with the majority of English universities. Most of these students are eligible for UK government funding to pay their tuition fees via a tuition fee loan and for maintenance support, based on a means tested assessment.

The level of tuition fees charged by the University for 2017/18, which was approved through OFFA, was linked to the provision of the University of Lincoln Support Package for students from low income backgrounds for every year of study. This package of support meant that all eligible students (approximately one in two of the University's 2017/18 entrants) received direct financial support for the first year of their course, with the same support being available throughout their course for future years.

The Vice Chancellor's Scholarship and the University Excellence Scholarships are provided in addition to the OFFA scholarships and bursaries noted above. The wide range of support packages are designed to ensure, as far as possible, that all students can benefit from higher education, regardless of background or financial circumstance. Our aim is that nobody should be deterred from applying to the University of Lincoln, or consider leaving their course, due to financial worries.

The University is committed to putting policies and processes in place that provide members of under-represented groups with opportunities to gain access to our academic programmes, including providing appropriate support where necessary. We will ensure that students from lower socio-economic backgrounds are given support to aid their social mobility.

The University offers its students a comprehensive support package, including academic study skills, careers guidance, advice, financial support, sports and exercise facilities as well as mental health, wellbeing and counselling services and specialist assessment and support for students with disabilities.

Trustees' Expenses

No members of the Board receive any payment for the work they do as Governors or as trustees, but reasonable expenses (chiefly for travelling and subsistence, and attendance at conferences and specialist training events or other external meetings on behalf of the Board) are reimbursed. For the academic year 2017/18, a total amount of £8,000 was paid in respect of claims made by nine Governors. This figure represents the reimbursement of out-of-pocket expenses by the trustees as members of the University governing body in attending meetings and other events, primarily travelling costs. Hotel accommodation, meals and associated costs relating to Board meetings are organised centrally by the University Secretariat and such costs are not included.

The governing body includes members of the University staff who are paid as employees but who receive no supplementary payment for trusteeship. There were no payments in the financial year 2017/18 to any Governor for services provided to the University. Note 7 to these financial statements summarise relevant transactions between the University and organisations in which members of the Board of Governors have or may have an interest.

Statement of corporate governance and internal control for the year ended 31 July 2018

The statements below relate to the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the audited financial statements.

The University of Lincoln is an independent institution, established as a higher education corporation under the terms of the Education Reform Act 1988 and the Further and Higher Education Act 1992. Its objects, powers and framework of governance are set out in its Instrument and Articles of Government. The Board of Governors is the University of Lincoln's governing body, responsible for matters including the finance, property and staffing of the University. It is specifically required to determine the educational character and mission of the University and to set its general strategic direction.

The Board has a majority of independent members, chosen in accordance with the criteria contained in the legislation. The chair is elected from among the independent members. The Board also includes co-opted members and members appointed from the University's staff and the student body. The Vice Chancellor of the University, Professor Mary Stuart, is a member of the Board. Mr Haydn Biddle, who had chaired the governing body since 2012, retired on 31 July 2018 having served the full eight-year term available to Governors. At the meeting on 26 July, on behalf of the Board, of the University, and herself personally, the Vice Chancellor noted her formal thanks to Mr Biddle for his leadership of the governing body and his contribution to the University of Lincoln's remarkable progress in recent years. Governors and the Executive wished him well for the future and looked forward to seeing him again in his continuing role as Pro Chancellor. Mr Biddle is succeeded as Chair by Ms Diane Lees CBE, who was appointed to that office by the Board of Governors at its meeting on 25 April, 2018. More information about the Board and its Members can be found on the University's website: http://lincoln.ac.uk/home/abouttheuniversity/governance/.

Responsibilities of the Board of Governors

The Higher Education Code of Governance published by the Committee of University Chairs (CUC) states that the governing body of a university must be unambiguously and collectively accountable for institutional activities, taking all final decisions on matters of fundamental concern within its remit. The governing body role is set out in more detail in a Statement of Primary Responsibilities of the Board of Governors, based on the Articles of Government and on guidance from the CUC, which is published on the University's website.

Subject to the overall responsibility of the Board of Governors, the Academic Board has oversight of the academic affairs of the institution and draws its membership entirely from the staff and the students of the University. It is particularly concerned with issues relating to the learning and teaching and research work of the University, to academic quality and standards, and to the student experience.

Corporate Governance

The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). The Vice Chancellor, as chief executive, is the head of the University and has a general responsibility to the Board of Governors for the organisation, direction and management of the institution. This includes the development and delivery of the institutional strategy, the identification and planning of new initiatives and the shaping of the institutional ethos. The Deputy Vice Chancellors and the senior academic and professional staff all contribute in essential ways to these aspects of the work, but the ultimate responsibility for approval of the strategic direction, institutional character and financial sustainability rests with the Board of Governors.

The Board has adopted the CUC's Higher Education Code of Governance and, following detailed consideration at a Strategy Day in July 2016, is assured that the University's governance structures and procedures fulfil the seven primary elements set out in the Code.

Between 1 August 2017 and 31 July 2018, the Board of Governors met on eight occasions. It also held a Strategy Day, together with the Senior Management Team, which focused on Strategic Plan development; the Governors' work as sponsors of the Strategic Plan's key performance indicators; and the University's application for registration with the Office for Students. The Board also has sub-committees and task-and-finish groups. The Nominations Committee, whose primary role is to make recommendations to the Board about the appointment and reappointment of members of the Board and its committees, met on three occasions during 2017/18. Conscious of the need for succession planning and refreshment of its membership, the Board asked the Nominations Committee to lead a search for new Governors and, through a diligent selection process, two new independent members were appointed from 1 August 2018, bringing fresh talent to the governance of the University. The Remuneration Committee, whose responsibilities include reviewing the performance and determining the remuneration of the most senior staff, including the Vice Chancellor, met on three occasions during 2017/18, giving detailed consideration to the new HE Senior Staff Remuneration Code produced by the CUC, and how to ensure the University of Lincoln's compliance with the three key elements set out in the Code. The Audit

Committee met five times; its role includes the consideration of detailed reports from internal auditors, with recommendations for the improvement of the University's systems of internal control, together with management responses and implementation plans. It also receives and considers the annual financial statements and external auditors' formal opinion, prior to their presentation to the Board of Governors. The University's external and internal auditors attend Audit Committee meetings, and during the year the Committee meets the auditors on their own for private discussions. The Board of Governors' Further Education Oversight Group met once during 2017/18. The Financial Sustainability Working Group met on five occasions during the year and considered: the University's 10 year financial model; a new Financial Strategy; and the financial impact of the new Medical School to be developed in Lincoln.

The University of Lincoln Court, which was set up in June 2011 in recognition of the part played by the people and businesses of Lincolnshire in the establishment of the University, brings together major figures of the region and beyond in business, education, arts and the professions who have a serious interest in the University and its future, and who can act as ambassadors and advocates of the institution in many wider fora. The Court met once during 2017/18.

Internal Control

The Board of Governors of the University of Lincoln has responsibility for maintaining and reviewing the effectiveness of a sound system of internal control which supports the achievement of corporate strategies, while safeguarding the public and other funds and assets for which they are responsible. Such a system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The approach to internal control is risk-based, including an evaluation of the likelihood and impact of risks becoming a reality. Review procedures cover risk in the following areas: business, operational, reputational, compliance and financial. The system represents an ongoing process designed to identify the principal risks to the achievement of the University's aims and objectives, to evaluate the nature and extent of those risks, and to anticipate and manage them. This process has been in place for the period from 1 August 2017 to 31 July 2018 and up to the date of approval of the audited financial statements.

The role of the Board of Governors in relation to risk is at overview level, and Governors are not responsible for managing risk at operational level. The Audit Committee plays a key role in ensuring the fulfilment of the Board's responsibilities. On behalf of the Board, the Audit Committee monitors the effectiveness of risk management processes and policy development. The Board receives an annual report from the Audit Committee which reviews and comments on: the adequacy and effectiveness of the University's risk management, control and governance arrangements; processes for promoting value for money through economy, efficiency and effectiveness; the management and quality assurance of data submitted to funding bodies; the work of the internal and external auditors; and other audit matters.

The University has a Risk Management Policy and Strategy that set out the approach to risk management; key elements of the process; roles, responsibilities and reporting procedures relating to risk management in the academic Colleges and the professional service areas. In accordance with the Policy and Strategy, the Senior Leadership Team receives reports setting out key performance and risk indicators and considers possible control issues brought to their attention by early warning mechanisms, which are embedded within the operational units and reinforced by risk awareness training. There is also a Risk Appetite Statement, approved by the Board of Governors.

At a corporate level the University maintains a high level risk register (HLRR) which details the chief risks to the institution and the actions that the University has in place to mitigate them, incorporating a current articulation of the risks by the relevant risk owners as well as updates on improvement actions and progress to date. Reporting arrangements ensure that the Audit Committee, the Board of Governors and the Senior Leadership Team understand the strategic importance of managing these risks effectively. In response to the decision that the UK would withdraw from the European Union, Brexit considerations have been included within the relevant risks in the HLRR and, as part of an on-going process, a separate Brexit register was developed to continue to look at the risks and opportunities for each of the elements affected.

The Audit Committee has continued its active oversight of University risk management, receiving reports from the Director of Planning and Corporate Strategy (the department with lead responsibility for risk management), following review and re-scoring of the HLRR by the Senior Leadership Team in November 2017 and again in July and November 2018. As part of the risk review process, each risk area is further broken down into lower sub-risks representing contributing factors to the high level risks. This approach ensures that risk assessment and internal control are embedded in ongoing operations, and that monitoring at all levels is undertaken effectively.

The Senior Leadership Team (SLT) regularly reviews the management of high level institutional risks. The high level risk register is reviewed in detail biannually via a re-scoring exercise where all members of the SLT consider and score all risks, which are then collated, with those with a wider distribution of scores being discussed in detail. This includes an assessment of each of the risk areas against the Strategic Plan, and a review of key risks identified within the local risk registers. Following the SLT reviews, the Audit Committee gave detailed consideration to the re-scored register, to obtain assurance on the identification and management of risks to the University's strategic ambitions. The Committee commends these six-monthly reviews as assurance that the Executive is keeping the institutional risk profile under appropriate scrutiny, and taking a proactive approach to risk management.

Recognising the importance of keeping risk management under scrutiny between these detailed biannual reviews, the Audit Committee regularly invites senior 'risk owners' to attend some of its meetings to discuss in more detail their entries on the high level risk register, and how the major risks are being managed and mitigated. In October 2017, the Deputy Vice Chancellor (External Relations) attended the Committee to talk to members about the management and mitigation of the high level risk relating to the effective development of strategy in a changing policy environment.

Review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the members of the Executive who have responsibility for the development and maintenance of the internal control framework; and by comments made in the external auditors' annual report. The Audit Committee considers at least one report on risk management by the internal auditors each year. In July 2018, the Committee discussed PwC's internal audit review, which had looked at the University's arrangements for risk management at academic College level, and had concluded that the University continued to have strong risk management controls and processes. It also concluded that the work had demonstrated that risk management was well understood in the Colleges and Schools reviewed as part of this audit. The Audit Committee welcomed this latest assurance of the embedding of the risk management process at a local level.

The principal results of risk identification, risk evaluation and the management review of their effectiveness are reported to, and reviewed by, the Board of Governors. The Board received reports on risk management, and the re-scoring of the high level risk register, in November 2017 and July and November 2018. Each November, the Board also considers the Annual Report of the Audit Committee, prior to the approval of the previous year's audited financial statements.

Statement of responsibilities of the Board of Governors for the year ended 31 July 2018

The Board of Governors is the principal financial and business authority of the University, charged with ensuring that proper books of account are kept, with approving the annual budget and financial statements, and with maintaining overall responsibility for the University's assets, property and estate. The Board approves financial statements for each financial year, prepared in accordance with the Education Reform Act 1988, the Statement of Recommended Practice: Accounting for Further and Higher Education Institutions, and other relevant accounting standards; and which give a true and fair view of the University's state of affairs and of the surplus or deficit and the cash flows for that year.

In the preparation of the Financial Statements the Board of Governors has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgments and accounting 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;
- The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Board of Governor's 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 in the preparation of the financial statements.

The Board of Governors has taken reasonable steps to:

- Ensure that the funds from the Higher Education Funding Council for England, the Office For Students, Research England and the Education and Skills Funding Agency are used only for the purposes for which they have been given; and in accordance with the HEFCE Memorandum of Assurance and Accountability (and any other conditions which HEFCE may from time to time prescribe), terms and conditions of OFS funding and Research England grant, and with the funding agreements with the Skills Funding Agency;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the University and to prevent and detect fraud and other irregularities;
- Secure the economical, efficient and effective management of the University's resources and expenditure.

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

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- Regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- Clearly defined and formalised requirements for approval and control of expenditure, with investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Board of Governors;
- Financial Regulations, detailing financial controls and procedures, which have been approved by the Board of Governors;
- A professional Internal Audit team operating to standards defined in the OFS Audit Code of Practice, whose annual programme is approved by the Audit Committee and whose head provides the Committee with regular reports on internal audit activity within the University, and independent opinions on the adequacy and effectiveness of the University's system of internal control, including internal financial control, together with recommendations for improvement

Ms D Lees CBE – Chair of the Board

Professor M Stuart CBE – Vice Chancellor

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF UNIVERSITY OF LINCOLN

Opinion

We have audited the financial statements of University of Lincoln ("the University") and its subsidiaries ("the Group") for the year ended 31 July 2018 which comprise the Consolidated Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, the Consolidated and University Balance sheets, the Consolidated Cash Flow statement and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the state of the Group's and of the University's affairs as at 31 July 2018 and of the Group's and the University's income and expenditure, gains and losses, changes in reserves and of the group's and the University's 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 and relevant legislation.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and University in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the governors use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the governors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the University's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The governors are responsible for the other information. Other information comprises the information included in the annual report,other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information including the Key Highlights, Strategic Report, Financial Review, Charitable Status and Public Benefit Report and the Statement of Corporate Governance and Internal Controls and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matters required by the Office for Students ("OfS") and Research England Audit Code of Practice

In our opinion, in all material respects:

- Funds from whatever source administered by the higher education institution for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation.
- Funds provided by the OfS and Research England have been applied in accordance with these terms and conditions and any other terms and conditions attached to them.
- The requirements of the OfS's accounts direction have been met.

Responsibilities of the governors

As explained more fully in the governors' responsibilities statement set out on page 25, the governors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the governors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the governors are responsible for assessing the Group and the University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the governors either intend to liquidate the Group or the University or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

In addition, we also report to you whether income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received and whether income has been applied in accordance with the Statutes and, where appropriate, with the Terms and Conditions of Funding from the Office for Students and Research England.

Use of our report

This report is made solely to the University board of governors, as a body, in accordance with paragraph 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the University's board of governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the governors as a body, for our audit work, for this report, or for the opinions we have formed.

BDO LLP

Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Birmingham
Date: 30 November 2018

BDO LLP is a limited liability partnership registered in England and Wales (with registered number OC305127)

Statement of accounting policies
For the year ended 31 July 2018

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standard (FRS) 102. The University is a public benefit entity and therefore has applied the relevant public benefit requirements of FRS102. The financial statements are prepared in accordance with the historical cost convention modified by the revaluation of certain fixed assets.

Basis of consolidation

The consolidated financial statements include the University and all its subsidiaries for the financial year to 31 July 2018. The results of subsidiaries newly incorporated, acquired or disposed of during the period are included in the consolidated statement of income and expenditure from the date of incorporation or acquisition and up to the date of disposal. Intra-group transactions are eliminated on consolidation.

The consolidated financial statements do not include the income and expenditure of the Students' Union as the University does not exert control or dominant influence over policy decisions.

Jointly controlled entities are accounted for using the equity method.

Income recognition

Income from the sale of goods or services is credited to the Consolidated Statement of Comprehensive Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross of any expenditure which is not a discount and credited to the Consolidated Statement of Comprehensive Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced, by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Funds the University receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the University where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

(a) Grant funding

Grant funding including funding council block grant, research grants from government sources and grants (including research grants) from non-government sources are recognised as income when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions being met is recognised as deferred income within creditors on the balance sheet and released to income as the conditions are met.

(b) Donations and endowments

Non exchange transactions without performance related conditions are donations and endowments. Donations and endowments with donor imposed restrictions are recognised in income when the University is entitled to the funds. Income is retained within the restricted reserve until such time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer.

Donations with no restrictions are recognised in income when the University is entitled to the funds.

Investment income and appreciation of endowments is recorded in income in the year in which it arises and as either restricted or unrestricted income according to the terms and other restrictions applied to the individual endowment fund.

There are four main types of donations and endowments identified within reserves:

- Restricted donations - the donor has specified that the donation must be used for a particular objective.

- Unrestricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
- Restricted expendable endowments - the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University has the power to use the capital.
- Restricted permanent endowments - the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

(c) Capital grants

Capital grants are recorded in income when the University is entitled to the income subject to any performance related conditions being met.

Accounting estimates and judgements

The preparation of the financial statements requires management to use estimates and judgements that affect the reported carrying amounts of assets and liabilities.

(a) Pension costs (defined benefit pension schemes)

In determining the valuation of defined benefit pension schemes the University make assumptions in respect of inflation rates, life expectancy, discount rate and salary and pension growth rates. Details of the assumptions used are set out in note 26. Management consult with a qualified actuary in making these assumptions.

(b) Pension costs (Universities Superannuation Scheme)

The University has obligations to pay pension benefits to certain employees who are members of the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension. The University has committed to contribute to a deficit recovery plan for the scheme and management has calculated a provision for these costs in the balance sheet. The present value of the obligation depends on a number of factors including life expectancy, salary increases, asset valuations and the discount rate on corporate bonds. Management estimates these factors, using external professional advice, in determining the net pension obligation in the balance sheet. The assumptions reflect historical experience and current trends.

The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. There remains various stages of consultation around the key factors specifically relating to the funding of the past deficit, including the level of contributions required, the period of the recovery plan and the level of asset performance over the period. In the judgement of the University, it therefore remains appropriate to continue to account for the past deficit obligation in accordance with the plan agreed after the 2014 actuarial valuation.

However, there is a significant risk that the year-end provision as calculated will not reflect the position following the final outcome of negotiations, potentially by a significant amount depending upon what is finally agreed as regards future deficit contributions and their duration.

(c) Fixed asset and investment property revaluation

On the application of FRS102 management revalued certain fixed assets and reassessed the remaining useful life of buildings. These assumptions were set based on the advice of a suitably qualified valuer. Assets which are classified as investment property are revalued at each reporting date based on advice from a suitably qualified valuer.

(d) Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of the unused entitlement. The accrual requires management's best estimate of outstanding holiday balances based on a review of holiday records of a sample of academic and administrative staff.

(e) Dilapidation provision

Provision is made for the cost of dilapidations of certain of the University's buildings. This provision requires management's best estimate of the costs that will be incurred to settle a present obligation and management consult with a qualified valuer in making these assumptions.

(f) Derivatives

The University has reviewed the terms of the bank loan agreements and consider that those loans where there was a commitment at the balance sheet date to draw down further tranches of loan subsequent to the year end and the interest rate was fixed meet the definition of an 'other financial instrument' because there is perceived value in shielding the University from fluctuations in the market rate of interest up to the date we draw down the remaining tranches. For this reason these instruments have been accounted for at fair value. The derivative financial liability represents the fair value at the balance sheet date calculated using estimated interest rates that could have been obtained for the same loans at the balance sheet date.

The estimated value of derivative transactions is the valuation at the balance sheet date and this valuation can change significantly even over a very short space of time. The valuation of derivative transactions is complex and such transactions can be calculated in a number of different ways and using a variety of methods. There are a number of factors that can affect the value of a transaction and which may not be taken into account in the valuation estimate provided. This may result in the transaction having an actual value which is higher or lower than the estimate included in these financial statements.

(g) Bad debt provision

The University makes an estimate of the recoverable value of debtors. When assessing the provision for bad debt required, consideration is given to the aged profile of debtors and historical experience.

(h) Dispute resolution – significant estimate

The University has been seeking a resolution to a dispute of the title of certain assets (land and buildings) for a number of years. As at the 31 July 2018, an agreement had been reached to settle the dispute, subject to the completion of the relevant legal documentation. The University does, however, consider the asset to remain encumbered and has written down the carrying value. It is possible that final legally binding agreement may not be reached and significant uncertainty therefore still exists at this time as to the final outcome.

Accounting for retirement benefits

The four principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS), the Teachers Pension Scheme (TPS), the East Riding Pension Fund (ERPF) and the Universities and Colleges Retirement Savings Scheme (UCRSS). The TPS and ERPF are defined benefit schemes, the UCRSS is a defined contribution pension scheme, and the USS is a hybrid scheme.

(a) Universities Superannuation Scheme (USS)

The institution participates in Universities Superannuation Scheme. With effect from 1 October 2016, the scheme changed from a defined benefit only pension scheme to a hybrid pension scheme, providing defined benefits (for all members), as well as defined contribution benefits. The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the assets are not attributed to individual institutions and a scheme-wide contribution rate is set. The institution is therefore exposed to actuarial risks associated with the 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. As required by Section 28 of FRS 102 "Employee benefits", the institution therefore accounts for the scheme as if it were a wholly defined contribution scheme. As a result, the amount charged to the profit and loss account represents the contributions payable to the scheme. Since the institution has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the institution recognises a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and therefore an expense is recognised.

(b) Teachers Pension Scheme (TPS)

The TPS is a multi-employer pension scheme and the University is unable to identify its share of the underlying assets and liabilities on a consistent and reasonable basis. The TPS is therefore accounted for as a defined contribution retirement benefit scheme. The scheme is unfunded and contributions are made to the Exchequer. Contributions payable are recognised in the Consolidated Statement of Comprehensive Income and Expenditure as they are payable each year. The payments from the scheme are made from funds voted by parliament.

(c) East Riding Pension Fund (ERPF)

The University is able to identify its share of assets and liabilities of the ERPF and consequently accounts for this as a defined benefit scheme in accordance with FRS102. The University's net obligation in respect of the ERPF is calculated by estimating the present value of the future benefits that employees have earned in return for their service in the current and prior periods, less the fair value of plan assets.

The liability discount rate is the yield at the balance sheet date on high quality corporate credit rated bonds, denominated in sterling, and having maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

(d) Universities and Colleges Retirement Savings Scheme (UCRSS)

The UCRSS is a defined contribution pension scheme. Contributions payable are recognised in the Consolidated Statement of Comprehensive Income and Expenditure as they are payable each year.

Employment benefits

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the university expects to pay as a result of the unused entitlement.

Apprenticeship levy

Payments made to HMRC under the Apprenticeship Levy represent a prepayment for training services and are held as an asset on the balance sheet to the extent that they are regarded as more likely that not that they will be recovered. When training services are received an appropriate expense is recognised in the Consolidated Statement of Comprehensive Income and Expenditure.

Leases

Leases in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Costs in respect of operating leases are charged on a straight-line basis over the lease term. Any lease premiums or incentives are spread over the minimum lease term.

Foreign currency

Transactions in foreign currencies are translated to sterling at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to sterling at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Consolidated Statement of Comprehensive Income and Expenditure. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to sterling at foreign exchange rates ruling at the dates the fair value was determined.

Fixed assets

Fixed assets are stated at cost, or deemed cost, less accumulated depreciation and accumulated impairment losses.

Where parts of a fixed asset have different useful lives, they are accounted for as separate items of fixed assets.

(a) Land and buildings

Certain of the University's land and buildings were professionally revalued to their fair value on the date of transition to FRS102. Under the transitional rules of FRS102 the revalued amount at that date is stated as the deemed cost. Land and buildings acquired after the date of transition are stated in the balance sheet at cost. Costs incurred in relation to land and buildings after initial purchase or construction, and prior to valuation, are capitalised to the extent that they increase the expected future benefits to the University.

Freehold land is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated on a straight line basis over their expected useful life to the University of between 10 and 50 years. Leasehold land and buildings are depreciated over the life of the lease, up to a maximum of 50 years.

(b) Equipment

Equipment, including computers and software, costing less than £20,000 per individual item is charged to the Consolidated Statement of Comprehensive Income and Expenditure in the year of acquisition. All other equipment, including motor vehicles, is capitalised at cost and depreciated on a straight line basis over their expected useful life to the University of between 3 and 20 years.

Items of plant and equipment which become fully depreciated during the year will remain on the fixed asset register for one more year. At the end of that year the cost and accumulated depreciation will be removed from the fixed asset register.

(c) Assets in the course of construction

Assets in the course of construction are accounted for at cost and are not depreciated until they are available for use.

Borrowing costs which are directly attributable to the purchase and construction of fixed assets are not capitalised. Borrowing costs are recognised as an expense in the Consolidated Statement of Comprehensive Income and Expenditure in the period in which they are incurred.

Depreciation methods, impairment losses, useful lives and residual values are reviewed at the date of preparation of each Balance Sheet.

Investment Properties

Investment property is land and buildings held for rental income or capital appreciation rather than for use in delivering services. Investment properties are measured initially at cost and subsequently at fair value with movements recognised in the Consolidated Statement of Comprehensive Income and Expenditure.

Properties are not depreciated but are revalued or reviewed annually according to market conditions at each balance sheet date.

Financial instruments

Financial instruments treated as 'basic financial instruments' under the provisions of Section 11 of FRS102 comprise cash, deposits repayable on demand, fixed term deposits, investments in shares and loans payable.

There is a judgement in the classification of loans payable between 'basic financial instruments' and 'non basic financial instruments'. The two key judgements concern market disruption events and the possibility of payment of break gains by the Lender to the Borrower on termination of a loan and whether these meet the basic classification features.

Financial instruments treated as 'non basic financial instruments' under the provisions of Section 12 of FRS102 comprise certain elements of loans payable. These are held at fair value at each balance sheet date.

Fixed interest rate agreements on drawn loans payable, where the interest rate is fixed directly with the lender, are not separate stand-alone financial instruments. The loans payable are recognised at amortised cost at each balance sheet date.

Forward fixed interest rate agreements on undrawn borrowings are recognised as separate stand-alone financial instruments and are accounted for under the provisions of Section 12 of FRS102 (Other Financial Instrument Issues). These are held on the balance sheet at fair value. Movements in the fair value are recognised in the Consolidated Statement of Comprehensive Income and Expenditure and are included in the surplus or deficit for the year. Once the loan is drawn down the fair value of the related loan commitment is amortised over the term of the loan and there are no further fair value movements.

Investments

Non-current asset investments are held on the balance sheet at amortised cost less impairment.

Investments in jointly controlled entities, associates and subsidiaries are carried at cost less impairment in the University's accounts.

Current asset investments are held at fair value with movements recognised in the Consolidated Statement of Comprehensive Income and Expenditure.

Jointly controlled entity

The University accounts for its share of jointly controlled entity using the equity method.

Stock

Stock is held at the lower of cost and net realisable value, and is measured using an average cost formula.

Cash and cash equivalents

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. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash with insignificant risk of change in value.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when:

- the University has a present obligation (legal or constructive) as a result of a past event;
- it is probable that an outflow of economic benefits will be required to settle the obligation; and
- a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

A contingent liability arises from a past event that gives the University a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

A contingent asset arises where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the University.

Contingent assets and liabilities are not recognised in the Balance Sheet but are disclosed in the notes.

Taxation

The University is an exempt charity within the meaning of Part 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 section 478-488 of the Corporation Tax Act 2010 (CTA 2010) or section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT incurred on fixed assets is included in their cost.

The University's subsidiary companies operate as commercial organisations and certain of these are subject to taxation.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not that they will be recovered.

Reserves

Reserves are classified as restricted or unrestricted. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund which the University must hold in perpetuity. Other restricted reserves include balances through which the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

Consolidated statement of comprehensive income and expenditure for the year ended 31 July 2018

	Note	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Income					
Tuition fees and education contracts	1	115,653	115,653	106,133	106,133
Funding body grants	2	12,829	12,829	13,561	13,561
Research grants and contracts	3	8,377	8,377	8,633	8,633
Other income	4	15,103	15,079	12,987	12,557
Investment income	5	294	292	1,610	1,610
Total income before endowments and donations		152,256	152,230	142,924	142,494
Donations and endowments	6	40	40	186	186
Total Income		152,296	152,270	143,110	142,680
Expenditure					
Staff costs	7	85,726	85,605	77,621	77,621
Other operating expenses		51,387	51,685	49,949	49,727
Depreciation and impairment	11	9,645	9,645	8,420	8,420
Interest and other finance costs	8	4,703	4,703	4,582	4,582
Total expenditure	9	151,461	151,638	140,572	140,350
Surplus before other gains/(losses) and share of deficit of joint ventures and associates		835	632	2,538	2,330
Share of operating deficit in joint venture	14	(24)	-	(79)	-
Surplus before tax		811	632	2,459	2,330
Taxation	10	-	-	(157)	(157)
Surplus for the year		811	632	2,302	2,173
Change in fair value of investment property	12	180	180	1,340	1,340
Actuarial gain in respect of pension schemes	26	35,106	35,106	4,305	4,305
Gift Aid received		-	204	-	120
Total comprehensive income for the year		36,097	36,122	7,947	7,938
Represented by:					
Endowment comprehensive income for the year		(16)	(16)	156	156
Unrestricted comprehensive income for the year		36,113	36,138	7,791	7,782
		36,097	36,122	7,947	7,938
Surplus for the year attributable to:					
University		811	632	2,302	2,173
Total Comprehensive income for the year attributable to:					
University		36,097	36,122	7,947	7,938

All items of income and expenditure relate to continuing activities.

The notes on pages 39 to 57 form part of these financial statements.

Consolidated and University statement of changes in reserves for the year ended 31 July 2018

Consolidated	Income and expenditure account			Total
	Endowment	Restricted	Unrestricted	Reserves
	£000	£000	£000	£000
Balance at 31 July 2016	222	-	148,209	148,431
Surplus from income and expenditure statement	156	-	7,791	7,947
Total comprehensive income for the year	156	-	7,791	7,947
Balance at 31 July 2017	378	-	156,000	156,378
(Deficit)/surplus from income and expenditure statement	(16)	-	36,113	36,097
Total comprehensive income for the year	(16)	-	36,113	36,097
Balance at 31 July 2018	362	-	192,113	192,475

University	Income and expenditure account			Total
	Endowment	Restricted	Unrestricted	Reserves
	£000	£000	£000	£000
Balance at 31 July 2016	222	-	148,193	148,415
Surplus from income and expenditure statement	156	-	7,782	7,938
Total comprehensive income for the year	156	-	7,782	7,938
Balance at 31 July 2017	378	-	155,975	156,353
(Deficit)/surplus from income and expenditure statement	(16)	-	36,138	36,122
Total comprehensive income for the year	(16)	-	36,138	36,122
Balance at 31 July 2018	362	-	192,113	192,475

The notes on pages 39 to 57 form part of these financial statements.

Consolidated and University balance sheets as at 31 July 2018

	Note	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Non-current assets					
Fixed assets	11	283,975	283,975	282,775	282,775
Investment property	12	1,810	1,810	1,630	1,630
Investments	13	40	40	40	239
Investment in jointly controlled entities	14	-	-	24	-
		285,825	285,825	284,469	284,644
Current assets					
Stock	15	78	78	114	114
Trade and other receivables	16	15,308	15,309	13,338	13,475
Investments	17	-	-	4,000	4,000
Cash and cash equivalents	23	29,318	29,290	30,776	30,408
		44,704	44,677	48,228	47,997
Creditors: amounts falling due within one year	18	(32,400)	(32,373)	(35,446)	(35,415)
Net current assets		12,304	12,304	12,782	12,582
Total assets less current liabilities		298,129	298,129	297,251	297,226
Creditors: amounts falling due after more than one year	19	(92,061)	(92,061)	(95,434)	(95,434)
Provisions					
Pension provisions	20	(13,353)	(13,353)	(44,854)	(44,854)
Other provisions	20	(240)	(240)	(585)	(585)
Total net assets		192,475	192,475	156,378	156,353
Restricted Reserves					
Income and expenditure reserve – endowment	22	362	362	378	378
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		192,113	192,113	156,000	155,975
Total Reserves		192,475	192,475	156,378	156,353

The financial statements were approved by the Board of Governors on 30 November 2018 and signed on its behalf on that date by:

Ms D Lees CBE – Chair of the Board

Professor M Stuart CBE – Vice Chancellor

The notes on pages 39 to 57 form part of these financial statements.

Consolidated cash flow statement
for the year ended 31 July 2018

	Note	2018 Consolidated £000	2017 Consolidated £000
Cash flow from operating activities			
Surplus for the year		811	2,302
Adjustment for non-cash items			
Depreciation	11	9,645	8,388
Other amounts written off fixed assets		-	32
Decrease in stock	15	36	178
Increase in debtors		(679)	(1,758)
(Decrease)/increase in creditors		(2,266)	6,403
Increase in pension provision	20	3,605	1,534
Decrease in other provisions	20	(345)	-
Share of operating deficit in joint venture	14	24	79
Adjustment for investing or financing activities			
Investment income	5	(199)	(313)
Interest payable	8	3,441	3,358
Change in fair value of loan commitments	5	-	(1,225)
Amortisation of derivative asset	8	31	45
Amortisation of derivative liability	5	(95)	(64)
Endowment income	6	(40)	(186)
Capital grant income	2	(1,317)	(1,700)
Net cash inflow from operating activities		12,652	17,073
Cash flows from investing activities			
Proceeds on sale of fixed assets		-	4,470
Capital grant receipts		1,317	1,700
Investment income		240	365
Payments made to acquire fixed assets		(12,250)	(54,829)
Decrease in short term deposits		4,000	16,000
Net cash outflow from investing activities		(6,693)	(32,294)
Cash flows from financing activities			
Interest paid		(3,421)	(3,303)
Endowment cash received		40	186
New loans granted		(1,363)	-
New unsecured borrowings		-	28,000
Repayments of amounts borrowed		(2,673)	(2,574)
Net cash (outflow)/inflow from financing activities		(7,417)	22,309
(Decrease)/increase in cash and cash equivalents in the year		(1,458)	7,088
Cash and cash equivalents at beginning of the year	23	30,776	23,688
Cash and cash equivalents at the end of the year	23	29,318	30,776

The notes on pages 39 to 57 form part of these financial statements.

1 Tuition fees and education contracts

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Full-time home and EU students	98,728	98,728	88,476	88,476
Full-time international students	10,600	10,600	12,307	12,307
Part-time students	5,031	5,031	4,444	4,444
Short courses and summer schools	752	752	500	500
Further education students	542	542	406	406
	115,653	115,653	106,133	106,133

2 Funding body grants

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Recurrent grants				
Higher Education Funding Council for England (HEFCE)	6,708	6,708	10,353	10,353
Office for Students (OFS)	1,415	1,415	-	-
UK Research and Innovation (UKRI)	1,200	1,200	-	-
Skills Funding Agency (SFA)	1,050	1,050	782	782
Specific grants				
HEFCE – Higher Education Innovation Fund	424	424	726	726
UKRI – Higher Education Innovation Fund	310	310	-	-
HEFCE – other specific grants	402	402	-	-
OFS – other specific grants	3	3	-	-
HEFCE – capital grants	1,317	1,317	1,700	1,700
	12,829	12,829	13,561	13,561

3 Research grants and contracts

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Research Councils	1,346	1,346	949	949
UK based charities	2,203	2,203	1,653	1,653
UK Central/Local Government/Health/Hospitals	2,700	2,700	2,315	2,315
Industry and commerce	494	494	727	727
European Union	1,283	1,283	2,131	2,131
Overseas	351	351	124	124
	8,377	8,377	7,899	7,899
Research and Development Expenditure Credit (RDEC)	-	-	734	734
	8,377	8,377	8,633	8,633

4 Other income

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Residences, catering and conferences	9,212	9,212	6,716	6,716
Other income generating activities	5,891	5,867	6,271	5,841
	15,103	15,079	12,987	12,557

5 Investment income

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Income from short term deposits	145	143	321	321
Amortisation of derivative liability	95	95	64	64
Other investment income	54	54	-	-
Change in fair value of loan commitments	-	-	1,225	1,225
	294	292	1,610	1,610

6 Donations and endowments

New endowments	23	23	164	164
Unrestricted donations	17	17	22	22
	40	40	186	186

7 Staff costs

Staff costs by type:				
Salaries	64,368	64,263	59,424	59,424
Social Security costs	6,747	6,740	6,046	6,046
Movement on USS provision	(138)	(138)	(148)	(148)
Other pension costs	14,383	14,374	11,746	11,746
Staff restructuring costs	366	366	553	553
	85,726	85,605	77,621	77,621

	2018 Consolidated Number	2018 University Number	2017 Consolidated Number	2017 University Number
Average staff numbers by major category:				
Teaching departments	1,186	1,186	1,090	1,090
Teaching support services	137	137	142	142
Other support services	62	62	66	66
Administration and central services	256	246	244	244
Premises	31	31	34	34
	1,672	1,662	1,576	1,576

Senior staff pay

	2018 Consolidated £000	2017 Consolidated £000
Remuneration package of the Vice-Chancellor:		
Basic salary	242	239
Performance related pay and other bonuses	7	12
Payments in lieu of pension contributions	39	38
Other taxable benefits	2	2
Non-taxable benefits	5	5
	295	296

7 Staff costs (cont.)

Other taxable benefits received by the Vice-Chancellor comprise:

- Private medical insurance

Non-taxable benefits received by the Vice-Chancellor comprise:

- Employers contribution for life assurance

The Vice Chancellor role is formally evaluated based on the responsibilities and duties through the application of a recognised role evaluation methodology and benchmarked against local, sector, national and international data on an annual basis. The University's Remuneration Committee subsequently determine remuneration arrangements in line with the evaluation outcome alongside:

- the context within which the University operates;
- the expected contribution of the role;
- the attributes required to undertake the role; and
- the value added, based on a number of elements, delivered by the role holder through their performance against annually set objectives, in line with the strategic direction of the University.

Payment arrangements will demonstrate value for money whilst also being sufficient to recruit, retain and motivate the role holder or future prospective role holder in the context of the market for that role.

Pay ratio of Vice-Chancellor's remuneration to the median remuneration of all other employees:

	2018 Consolidated Pay ratio	**2017 Consolidated** Pay ratio
Basic salary ratio	6.8 times	7.0 times
Total remuneration ratio	7.0 times	7.4 times

The calculation of the pay ratios above do not include any amounts relating to staff indirectly engaged through employment agencies, due to the difficulty in compiling this information from multiple sources. The University utilises employment agencies to engage staff across the full salary range where a very short term or immediate need is identified. In addition, the number of agency engaged staff are very low compared to the directly employed workforce. It is therefore considered that the exclusion of agency staff from the calculations above does not significantly affect the pay ratios quoted.

Other higher paid staff (with basic salary over £100,000 per annum):	**2018** Number	**2017** Number
Basic salary per annum		
£100,000 to £104,999	2	1
£105,000 to £109,999	1	-
£110,000 to £114,999	1	1
£115,000 to £119,999	4	1
£120,000 to £124,999	2	3
£125,000 to £129,999	1	1
£130,000 to £134,999	2	-
£135,000 to £139,999	-	1
£140,000 to £144,999	3	1

7 Staff costs (cont.)

Key management personnel

Key management personnel are defined as the Senior Leadership Team, who have authority and responsibility for planning, directing and controlling the activities of the University. Key management personnel compensation includes all benefits provided by the Group in exchange for services rendered.

	2018 Consolidated £000	2017 Consolidated £000
Key management personnel compensation	2,668	2,011

Severance payments

During the year total severance payments amounting to £386,000 (2017: £746,000) were paid to 25 employees (2017: 49 employees) across the consolidated group. All amounts paid were in respect of loss of office.

Governing body

The University's Board of Governors are the trustees for charitable law purposes. Due to the nature of the University's operations and the compositions of the Board, being drawn, in part, from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's Financial Regulations and usual procurement procedures.

All transactions greater than £10,000 are listed below:

- Transactions totalling £481,347 relating to rental charges, equipment and supporting activity with Siemens Industrial Turbomachinery Ltd where Mr N Corner is the Managing Director.
- Transactions totalling £18,879 relating to website development services, office rental and the related service charges with Epix Media Limited where Ms Z Easey is Director.
- Transactions totalling £13,792 relating to nursing clinical and school of pharmacy fees and mentor grants with University of Nottingham where Mr S Bailey is a Professor.
- Transactions totalling £1,593,646 relating to relating to block grant, rental charges and supporting activity with University of Lincoln Students' Union where Mr K Muzangaza is chair.
- Transactions totalling to £995,989 relating to rental charges with Lincoln Science and Innovation Park where Mr H Biddle and Professor M Stuart CBE are Directors.
- Transactions totalling £20,920 relating to contribution to LPAC Ambition for Excellence, Drill Hall Hire with Lincoln Drill Hall where Dr K Savage is a Trustee.

No member of the Board of Governors has received any remuneration or waived payments from the group during the year (2017: £nil).

The total expenses paid to nine members of the Board of Governors was £8,000 (2017: £8,000 to nine Governors). This figure represents the refunding of out-of-pocket expenses in attending meeting and other events, primarily travelling costs. Hotel accommodation, meals and associated costs relating to Board meetings are organised centrally by the University Secretariat and such costs are not included as these are borne directly by the University.

8 Interest and other finance costs

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Loan interest	3,441	3,441	3,358	3,358
Amortisation of derivative asset	31	31	45	45
Net charge on pension scheme	1,189	1,189	1,138	1,138
Unwinding of discounts on pension provisions	42	42	41	41
	4,703	4,703	4,582	4,582

9 Analysis of total expenditure by activity

	2018 Consolidated	2018 University	2017 Consolidated	2017 University
Academic departments	66,586	66,586	62,681	62,681
Academic services	17,506	17,506	15,590	15,590
Administration and central services	26,259	26,436	26,894	26,894
Premises	24,498	24,498	20,389	20,389
Residences and catering operations	5,230	5,230	5,721	5,721
Research grants and contracts	7,573	7,573	7,222	7,222
Other expenditure	3,809	3,809	2,075	1,853
	151,461	151,638	140,572	140,350
Other operating expenses include:				
External auditors remuneration in respect of:				
Audit services	54	54	50	50
Non-audit services	3	3	-	-
Operating lease rentals:				
Land and buildings	1,109	1,109	1,116	1,116
Other	165	165	149	149

10 Taxation

	2018 Consolidated	2018 University	2017 Consolidated	2017 University
Recognised in the statement of comprehensive income				
Current tax				
Current tax expense	2	-	-	-
Taxation on RDEC Income	-	-	157	157
Adjustment in respect of previous years	-	-	-	-
Current tax expense	2	-	157	157
Deferred tax				
Origination and reversal of timing differences	(2)	-	-	-
Reduction in tax rate	-	-	-	-
Recognition of previously unrecognised tax losses	-	-	-	-
Deferred tax expense	(2)	-	-	-
Total tax expense	-	-	157	157

11 Fixed assets

Consolidated and University	Assets in the course of construction £000	Freehold land and buildings £000	Leasehold land and buildings £000	Fixtures, fittings and equipment £000	Total £000
Cost					
At 1 August 2017	30,125	223,605	34,975	20,844	309,549
Reclassification	-	23,004	(23,004)	-	-
Additions	8,071	409	174	2,191	10,845
Written off	-	-	-	(1,050)	(1,050)
Transfers	(30,240)	28,014	979	1,247	-
As at 31 July 2018	7,956	275,032	13,124	23,232	319,344
Depreciation					
At 1 August 2017	-	12,105	4,735	9,934	26,774
Reclassification	-	1,785	(1,785)	-	-
Charge for the year	-	4,713	1,669	3,263	9,645
Written off	-	-	-	(1,050)	(1,050)
At 31 July 2018	-	18,603	4,619	12,147	35,369
Net book value					
At 31 July 2018	7,956	256,429	8,505	11,085	283,975
At 31 July 2017	30,125	211,500	30,240	10,910	282,775

On adoption of FRS102, certain exemptions are permitted under the transitional rules set out in section 35 of the standard. The University has taken advantage of the exemption permitted under paragraph 35.10(c) of FRS102 and has measured certain tangible fixed assets at their fair value on the date of transition, and used that fair value as deemed cost. The revaluation was carried out by an independent firm of chartered surveyors. As permitted by FRS102, the University has not adopted a policy of revaluations in the future.

At 31 July 2018, freehold land and buildings included £19,262,000 (2017: £19,262,000) in respect of freehold land which is not depreciated.

Included within freehold land and buildings is an amount of £11.5m which relates to the Sports Centre that was constructed on leasehold land subsequent to the lease commencing.

12 Investment property

Consolidated and University	Investment Property £000
Fair value	
At 1 August 2017	1,630
Net gain recognised in Consolidated Statement of Comprehensive Income and Expenditure	180
As at 31 July 2018	1,810

Investment property is fair valued at each balance sheet date by an independent firm of chartered surveyors. The valuation is based on an existing use value (EUV) basis, with the market value considered to be equal to the EUV for all investment properties.

13 Non-current investments

Consolidated	Other non-current investments £000
At 1 August 2017 and 31 July 2018	40

University	Subsidiary companies £000	Investment in jointly controlled entity £000	Other non-current investments £000	Total £000
At 1 August 2017	175	24	40	239
Share of deficit in joint venture	-	(24)	-	(24)
Impairment	(175)	-	-	(175)
At 31 July 2018	-	-	40	40

The University holds 100% of the ordinary share capital of UoL Services Limited, a company incorporated in England and Wales. The company was incorporated on 27 October 2017, with the nature of its business being the provision of non-academic professional service and support staff to the University of Lincoln.

The University holds 100% of the ordinary share capital of ULEX Limited, a company incorporated in England and Wales. The nature of its business is the provision of consultancy, training, conference and research facilities, although the company has not traded during the year.

The University holds 100% of the ordinary share capital of UL Learning Resources Limited, a charitable company incorporated in England and Wales. The nature of its business is the provision of learning resource facilities, although the company has not traded during the year. UL Learning Resources Limited is a connected institution within the definition of paragraph 28 of Schedule 3 to the Charities Act 2011 and is therefore exempt from registration with the Charity Commission. Net assets of the charity at 31 July 2018 were £1 (31 July 2017: £1).

The University holds 100% of the ordinary share capital in Riseholme Park Farms Limited, a company incorporated in England and Wales. The nature of its business is farming, although the activities have been wound down during the current financial year. It is anticipated that the company will not trade in future periods and will remain dormant.

The University holds 25% of the ordinary share capital of Lincoln Science and Innovation Park Ltd, a company incorporated in England and Wales. The nature of the business is the development of a science and innovation park in Lincoln. The investment is treated as a joint venture in the group financial statements (see note 14).

Other non-current investments consist of:	2018 Consolidated and University £000
CVCP Properties plc	30
Metnano Limited	10
	40

CVCP Properties plc is a company owned by Universities UK and its member institutions. Metnano Limited is a company invested in to exploit intellectual property with a commercial partner.

The University holds no investment in either the Lincolnshire Educational Trust Ltd or the Lincoln University Technical College (UTC). These are companies limited by guarantee with the University’s liability limited, in both cases, to £10.

13 Non-current investments (cont.)

With effect from 15 September 2016 the University became the sole member of The Lincolnshire Foundation. As of this date, The Lincolnshire Foundation became a connected institution within the definition of paragraph 28 of Schedule 3 to the Charities Act 2011, and is therefore exempt from registration with the Charity Commission. On 31 July 2016 the funds of the Lincolnshire Foundation were donated to the University of Lincoln and it became dormant. On 20 February 2018 the company was dissolved via voluntary strike-off.

14 Investment in jointly controlled entity

The University has a joint venture agreement with Lincolnshire Co-operative Limited. The joint venture company, Lincoln Science and Innovation Park Limited (LSIP), is limited by shares. LSIP is jointly owned by the Lincolnshire Co-operative Limited, who hold 75% of the shares, and the University of Lincoln, who hold 25% of the shares. The arrangement is treated as a joint venture and is accounted for using the equity method, such that 25% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 25% of its net income is reported in the University's consolidated statement of comprehensive income and expenditure.

The Group's 25% share of the joint venture is as follows:	**2018**	**2017**
	£000	£000
Income and expenditure account		
Income	253	166
Operating loss	(24)	(79)
Balance sheet		
Fixed assets	3,867	2,815
Current assets	193	14
	4,060	2,829
Creditors: amounts falling due within one year	(35)	(24)
Creditors: amounts falling due after more than one year	(4,025)	(2,781)
Share of net assets	-	24

15 Stock	**2018 Consolidated**	**2018 University**	**2017 Consolidated**	**2017 University**
	£000	£000	£000	£000
Goods for resale	7	7	51	51
Raw materials and consumables	71	71	63	63
	78	78	114	114

16 Trade and other receivables

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Amounts falling due within one year:				
Research grants receivable	1,905	1,905	2,482	2,482
Other trade receivables	5,952	5,952	4,791	4,786
Other receivables	884	884	1,164	1,163
Prepayments and accrued income	4,774	4,774	4,432	4,429
Amounts due from subsidiary companies	-	2	-	146
	13,515	13,517	12,869	13,006
Amounts falling due after more than one year:				
Other receivables	1,672	1,671	347	347
Prepayments and accrued income	121	121	122	122
	15,308	15,309	13,338	13,475

17 Current asset investments

Short term deposits	-	-	4,000	4,000

Deposits are held with banks and building societies operating in the UK market who are licensed and regulated by the Financial Conduct Authority.

18 Creditors: amounts falling due within one year

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Secured loans	2,024	2,024	1,923	1,923
Unsecured loans	1,098	1,098	750	750
Unamortised loan commitment liability	64	64	64	64
Trade payables	5,170	5,170	6,600	6,599
Other payables	3,100	3,088	3,534	3,534
Social security and other taxation payable	1,742	1,727	1,701	1,700
Accruals and deferred income	19,202	19,202	20,874	20,845
	32,400	32,373	35,446	35,415

The unamortised loan commitment liability represents the remaining element of the fair value of the derivative financial liability created when the University forward fixed the interest rate on certain of its borrowings with the European Investment Bank. The fair value of the liability was fixed at draw down and is amortised over the life of the related loan (note 19).

18 Creditors: amounts falling due within one year (cont.)

Deferred income

Included with accruals and deferred income are the following items of income which have been deferred until specific performance related conditions have been met:

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Research grants received on account	2,818	2,818	2,428	2,428
Other income	2,146	2,146	3,273	3,273
	4,964	4,964	5,701	5,701

19 Creditors : amounts falling due after more than one year

	2018 Consolidated £000	2018 University £000	2017 Consolidated £000	2017 University £000
Secured loans	31,655	31,655	33,678	33,678
Unsecured loans	59,276	59,276	60,375	60,375
Unamortised loan commitment liability (note 18)	810	810	874	874
Accruals and deferred income	320	320	507	507
	92,061	92,061	95,434	95,434
Secured and unsecured loans are repayable as follows:				
Due within one year on demand	3,122	3,122	2,673	2,673
Due between one and two years	4,317	4,317	3,122	3,122
Due between two and five years	14,648	14,648	13,909	13,909
Due in five years or more	71,966	71,966	77,022	77,022
	94,053	94,053	96,726	96,726
Due within one year or on demand	(3,122)	(3,122)	(2,673)	(2,673)
Due after more than one year	90,931	90,931	94,053	94,053

An analysis of the Group's borrowings is set out below:

Lender	Amount £000	Term	Interest Rate %	Borrower
Dexia	4,478	2023	5.08	University
Dexia	4,030	2028	5.38	University
Santander	12,375	2035	5.00	University
Royal Bank of Scotland	22,154	2037	4.69	University
Royal Bank of Scotland	3,016	2037	3.40	University
European Investment Bank	20,000	2041	2.37	University
European Investment Bank	14,000	2042	2.45	University
European Investment Bank	14,000	2042	2.48	University
Total borrowings	94,053			

All borrowings are held at amortised cost.

20 Provisions for liabilities

Consolidated and University	Obligation to fund deficit on USS pension £000	Defined benefit obligations £000	Total pension provisions £000	Onerous contracts and other £000	Total other £000
As at 1 August 2017	2,216	42,638	44,854	585	585
Utilised in year	(138)	(5,564)	(5,702)	-	-
Net pension charge	(334)	9,599	9,265	-	-
Actuarial loss on ERPF	-	(35,106)	(35,106)	-	-
Unwinding of USS discount	42	-	42	-	-
Unused amounts reversed in year	-	-	-	(345)	(345)
As at 31 July 2018	1,786	11,567	13,353	240	240

Obligations to fund deficit on USS Pension

The obligation to fund the past deficit on the University's Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision and have discounted the expected deficit recovery payments.

The provision is calculated based on the recovery plan agreed after the 2014 actuarial valuation of the scheme. The 2017 actuarial valuation of USS has been undertaken but this has not yet been formally completed. As such management consider it appropriate to continue to account for the past deficit obligation in accordance with the previously agreed recovery plan.

Defined benefit obligations

Defined benefit obligations are set out in further detail in note 26.

Onerous contracts and other

The onerous contracts and other matters provision relates to the estimated liabilities in respect of onerous contractual obligations arising from certain operating leases, which are due to be settled within one year from the balance sheet date.

21 Financial Instruments

The carrying values of the Group and University's financial assets and liabilities are summarised by category below:

Financial Assets	Note	**2018 Consolidated** £000	**2018 University** £000	**2017 Consolidated** £000	**2017 University** £000
Debt instruments measured at amortised cost					
Long-term loans receivable		1,736	1,736	385	385
Measured at undiscounted amount receivable					
Trade and other receivables		11,010	11,007	10,492	10,629
Equity instruments measured at cost less impairment					
Non-current asset investments in unlisted equity instruments	13	40	40	40	40
		12,786	12,783	10,917	11,054
Financial Liabilities					
Measured at fair value through income and expenditure					
Unamortised loan commitment liability	18,19	874	874	938	938
Measured at amortised cost					
Loans payable	18,19	94,053	94,053	96,726	96,726
Measured at undiscounted amount payable					
Trade and other creditors		21,317	21,286	24,882	24,846
		116,244	116,213	122,546	122,510

Interest income and expense

Total interest income for financial assets at amortised cost	5	294	292	385	385
Total interest expense for financial assets at amortised cost	8	(3,441)	(3,441)	(3,358)	(3,358)
		(3,147)	(3,149)	(2,973)	(2,973)

22 Endowment Reserves

Restricted net assets relating to endowments are as follows:

Consolidated and University

	Restricted permanent endowments £000	Unrestricted permanent endowments £000	Restricted expendable endowments £000	Total 2018 £000	Total 2017 £000
Balances at 1 August					
Capital	-	-	378	378	222
Accumulated income	-	-	-	-	-
	-	-	378	378	222
New endowments	-	-	40	40	186
Expenditure	-	-	(56)	(56)	(30)
	-	-	(16)	(16)	156
Increase in market value of investments	-	-	-	-	-
At 31 July	-	-	362	362	378
Represented by:					
Capital	-	-	362	362	378
Accumulated income	-	-	-	-	-
	-	-	362	362	378
Analysis by type of purpose:					
Scholarships and bursaries	-	-	55	55	59
General Academic	-	-	239	239	249
Research support	-	-	2	2	-
Prize funds	-	-	66	66	70
	-	-	362	362	378
Analysis by asset:					
Current and non-current asset investments	-	-	-	-	-
Cash and cash equivalents	-	-	362	362	378
	-	-	362	362	378

23 Cash and equivalents

Consolidated	At 1 August 2017 £000	Cash Flows £000	At 31 July 2018 £000
Cash and cash equivalents	30,776	(1,458)	29,318

24 Capital and other commitments

Provision has not been made for the following capital commitments at 31 July:

Consolidated and University	2018 £000	2017 £000
Commitments contracted for	4,512	4,623
Authorised but not contracted for	32,141	9,220
	36,653	13,843

25 Lease obligations

Total rentals payable under operating leases:

Consolidated and University	Land and Buildings £000	Other £000	Total 2018 £000	Total 2017 £000
Payable during the year	1,109	165	1,274	1,116
Future minimum lease payments due:				
Not later than 1 year	1,099	156	1,255	1,116
Later than 1 year and not later than 5 years	13,001	362	13,363	4,287
Later than 5 years	51,556	9	51,565	15,045
Total lease payments due	65,656	527	66,183	20,448

26 Pension schemes

The University's employees belong to four pension schemes, East Riding Pension Fund (ERPF), Teachers' Pensions (TPS), the Universities Superannuation Scheme (USS) and the Universities and Colleges Retirement Savings Scheme (UCRSS). The total pension cost for the year was:

	2018 £000	2017 £000
ERPF including FRS102 adjustments	8,410	6,323
TPS contributions payable	5,220	4,221
USS contributions (excluding provision movements)	849	1,202
UCRSS contributions	8	-
Total pension cost	14,487	11,746

ERPF

The ERPF is a funded, defined benefit scheme, available to non-academic staff, with the assets held in separate trustee administered funds.

ERPF is valued every three years by professionally qualified independent actuaries using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the ERPF actuary reviews the progress of the ERPF scheme.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy for the scheme after consultation with professional advisers.

The total contribution made for the year ended 31 July 2018 was £6,879,000 of which employers' contribution totalled £5,428,000 and employees' contributions totalled £1,451,000. The employer's contribution rate was 25.3% throughout the year. The employees' contribution rate is based on earnings per annum and ranges from 5.5% to 12.5%.

The University also provides ex-gratia pension benefits to certain former employees who could not join the pension scheme at the time. Ex-gratia payments have ceased accruing for all such employees. The University paid ex-gratia pensions of £136,000 during the year end 31 July 2018 (2017: £136,000). These liabilities are not separately funded.

Assumptions

The following information is based upon a full actuarial valuation of the fund at 31 March 2016, updated to 31 July 2018 on an FRS102 basis by a qualified independent actuary.

26 Pension schemes (cont.)

The financial assumptions used to calculate the scheme liabilities under FRS102 are:

	2018	2017
	%	%
Price Inflation (RPI)	3.1	3.4
Price Inflation (CPI)	2.1	2.4
Rate of increase of salaries	2.3	2.7
Rate of increase of pensions in payment for ERPF members	2.1	2.5
Discount rate	2.8	2.7

The most significant non-financial assumption is the assumed level of longevity. The table below shows the life expectancy assumptions used in the accounting assessments based on the life expectancy of male and female members at age 65:

	2018	2017
Current pensioners		
Males	20.9	21.7
Females	23.6	24.2
Future pensioners (currently aged 45)		
Males	22.2	23.7
Females	25.3	26.4

Scheme assets

The fair value of the assets in the ERPF were:

	2018	2017	2016
	£000	£000	£000
Equities	103,598	96,835	82,369
Bonds	18,705	12,741	12,081
Property	17,266	14,016	12,081
Cash	4,317	3,822	3,295
Total fair value of assets	143,886	127,414	109,826

26 Pension schemes (cont.)

The following amounts at 31 July 2018 were measured in accordance with the requirements of FRS102.

Analysis of the amount shown in the balance sheet for ERPF and ex-gratia pensions	**2018**	**2017**
	£000	£000
Scheme assets	143,886	127,414
Scheme liabilities	(155,453)	(170,052)
Deficit in the scheme – net pension liability recorded within pension provisions (Note 20)	(11,567)	(42,638)
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	8,410	6,223
Past service cost	-	100
	8,410	6,323
Analysis of the amount charged to interest and other finance costs		
Interest income on plan assets	(3,489)	(2,796)
Interest cost on defined benefit obligation	4,678	3,934
Interest on net deficit	1,189	1,138
Analysis of other comprehensive income for ERPF and ex-gratia pensions		
Remeasurements		
- Changes in demographic assumptions	6,583	3,302
- Changes in financial assumptions	19,481	(9,687)
- Other experience	(93)	117
- Return on assets excluding amounts included in net interest	9,135	10,573
Actuarial gain	35,106	4,305

History of experience gains and losses for ERPF and ex-gratia pensions

Difference between the expected and actual return on assets:	**2018**	**2017**	**2016**	**2015**	**2014**
Amount (£000)	9,135	10,573	7,691	2,906	(342)
% of assets at end of year	6.3%	8.3%	7.0%	3.1%	0.4%
Experience gains/(losses) on scheme liabilities:					
Amount (£000)	93	117	1,989	1,029	1,864
% of scheme liabilities at end of	0.1%	0.1%	1.3%	0.8%	1.6%

	2018	**2017**
	£000	£000
Cumulative actuarial (gains)/ loss recognised as other comprehensive income for ERPF and ex-gratia pensions		
Cumulative actuarial (gains)/losses recognised at the start of the year	22,117	26,422
Cumulative actuarial (gains)/losses recognised at the end of the year	(12,989)	22,117
Analysis of movement in deficit for ERPF and ex-gratia pensions:		
Deficit at beginning of year	(42,638)	(45,272)
Contributions or benefits paid by the University	5,564	5,790
Current service cost	(8,410)	(6,323)
Other finance charge	(1,189)	(1,138)
Gain recognised in other comprehensive income	35,106	4,305
	(11,567)	(42,638)

26 Pension schemes (cont.)

Analysis of movement in the present value of ERPF and ex-gratia liabilities	2018	2017
	£000	£000
Present value of ERPF and ex-gratia liabilities at the start of the year	170,052	155,098
Current service cost	8,410	6,323
Interest cost	4,678	3,934
Actual members contributions	1,451	1,389
Actuarial (gain)/loss	(25,971)	6,268
Actual benefit payments	(3,167)	(2,960)
Present value of ERPF and ex-gratia liabilities at the end of the year	155,453	170,052

Analysis of the movement in the fair value of scheme assets

Fair value of assets at start of the year	127,414	109,826
Expected return on assets	3,489	2,796
Actuarial gain on assets	9,135	10,573
Actual contributions paid by University	5,564	5,790
Actual member contributions	1,451	1,389
Actual benefit payments	(3,167)	(2,960)
Fair value of assets at end of the year	143,886	127,414

ERPF assets do not include any of the institution’s own financial instruments, or any property occupied by the institution.

	2018	2017
Actual return on scheme assets	£000	£000
Expected return on scheme assets	3,489	2,796
Asset gain	9,135	10,573
	12,624	13,369

Estimated University contributions for ERPF for the year ended 31 July 2018 are £5,428,000.

Sensitivity Analysis

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 July 2018:	Approximate increase to Defined Benefit Obligation	Approximate monetary amount
		£000
0.5% decrease in Real Discount Rate	12%	18,498
0.5% increase in Salary Increase Rate	2%	2,708
0.5% increase in the Pension Increase Rate	10%	15,636

TPS

TPS is valued every five years by the Government Actuary. Contributions are paid by the institution at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made from funds voted by Parliament. The contribution rate payable by the employer is 16.48% (2017: 16.48%) of pensionable salaries. The employees’ contribution rate is based on earnings per annum and ranges from 7.4% to 11.7%.

26 Pension schemes (cont.)

USS

The total cost charged to the profit and loss account is £849,000 (2017: £1,096,000).

The latest available complete actuarial valuation of the Retirement Income Builder section of the Scheme is at 31 March 2014 (the valuation date), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway but not yet completed.

Since the University cannot identify its share of the Retirement Income Builder Section of the Scheme assets and liabilities, the following disclosures reflect those relevant for the section as a whole.

The 2014 valuation was the third 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. At the valuation date, the value of the assets of the Scheme was £41.6 billion and the value of the Scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. These figures will be revised once the 2017 Scheme Valuation is complete.

Defined benefit liability numbers for the Scheme for accounting purposes have been produced using the following assumptions as at 31 March 2017 and 2018.

	2018	**2017**
Discount rate	2.64%	2.57%
Pensionable salary growth	n/a	n/a
Pensions increases (CPI)	2.02%	2.41%

The main demographic assumption used relates to the mortality assumptions. These assumptions have been updated for the 31 March 2018 accounting position, based on updated analysis of the Scheme's experience carried out as part of the 2017 actuarial valuation. The mortality assumptions used in these figures are as follows:

	2018	**2017**
Mortality base table	Pre-retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for females. Post retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.	Pre-retirement: 98% of SAPS S1NA "light" YOB unadjusted for males. Post retirement: 99% of SAPS S1NA "light" YOB with a -1 year adjustment for females.
Future improvements to mortality	CMI 2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% pa for females.	CMI 2014 with a long term rate of 1.5% p.a.

The current life expectancies on retirement at age 65 are:

	2018 Years	**2017** Years
Males currently aged 65	24.5	24.4
Females currently aged 65	26.0	26.6
Males currently aged 45	26.5	26.5
Females currently aged 45	27.8	29.0

26 Pension schemes (cont.)

The scheme assets and liabilities are:

	2018	2017
Scheme assets	£63.6bn	£60.0bn
Total scheme liabilities	£72.0bn	£77.5bn
FRS102 scheme deficit	£8.4bn	£17.5bn
FRS102 total funding level	88%	77%

UCRSS

The UCRSS is a defined contribution pension scheme, introduced for employees during the year ended 31 July 2018. Contributions payable are recognised in the Consolidated Statement of Comprehensive Income and Expenditure as they are payable each year. The total cost charged to the profit and loss account is £8,000.

The contribution rate payable by the employer is 7% to 10% (capped) of pensionable salary dependent on the employees' contribution. The employees' contribution rate is flexible from a minimum of 2% of pensionable salary to a maximum of 100% of pensionable salary.

The governing body and officers 2017/18

The Governors who served in the period from 1 August 2017 were as follows:

Mr H Biddle (Chair)
Professor S Bailey
Mr N Corner
Sir G Davies
Ms Z Easey
Professor D French (Staff Member)
Ms D Gilhespy
Mr N Gray
Mr N Herbert
Ms M Jackson (Deputy Chair)
Ms D Lees CBE
Professor J Ker
Mr K Muzangaza (Student Member)
Ms J Reeves
Dr K Savage (Staff Member)
Professor M Stuart CBE (Vice Chancellor)
Mr R Whetton
Mr A Barratt (from 1 August 2018)
Ms Myrtle Dawes (from 1 August 2018)

Clerk to the Board of Governors: Mr P Walsh

The officers (Senior Leadership Team) who served in the period from 1 August 2017 were as follows:

Professor M Stuart CBE	Vice Chancellor
Mr J Free CBE	Deputy Vice Chancellor
Professor A Hunter	Deputy Vice Chancellor
Professor E Mossop	Deputy Vice Chancellor (from 2 July 2018)
Mr S Parkes	Deputy Vice Chancellor
Professor S Rigby	Deputy Vice Chancellor (until 19 January 2018)
Professor T Wilkinson	Deputy Vice Chancellor
Professor M Cragoe	Pro Vice Chancellor
Professor E John	Pro Vice Chancellor
Professor C Marsh	Pro Vice Chancellor
Professor S Owen	Pro Vice Chancellor
Professor H Gross	Acting Head of College (from 1 August 2018)
Mr D Braham	Chief Finance Officer
Ms H Dowdy	Director of Estates
Ms C Low	Director of Planning and Corporate Strategy
Ms R Simpson	Director of Human Resources
Mr C Spendlove	University Registrar

The University's principal advisors were:

Lloyds Bank plc	Bankers
BDO LLP	External Auditor
Pricewaterhouse Coopers LLP	Internal Auditor