

Financial Statements 2016/17



UNIVERSITY OF
LINCOLN

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Key highlights for the year ended 31 July 2017

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. As indicated in last year's annual report, 2016/17 has been a more challenging year with a lower operating surplus. The Home/EU under-graduate fee was fixed for a fifth consecutive year and cost pressures continue to grow, particularly in areas such as payroll taxes and pensions. Despite these pressures, the University continued to invest in new Schools, buildings and facilities as we continue to work towards our strategic objectives.

	2017 £000	2016 £000
Total income	143,110	138,627
Operating surplus	1,163	8,579
Net cash generated from operations	17,073	16,436
Net assets	156,378	148,431
Capital expenditure	53,119	26,914
Net debt	61,950	27,612

Teaching Excellence Framework 2017 saw the University awarded Gold 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 59 higher education providers of the total 295 entering the TEF to be awarded Gold.

League tables In the latest Times and Sunday Times Good University Guide, the University is placed 54th out of 129 institutions, whilst in the Complete University Guide (CUG) we are ranked 50th. In the Guardian our rank has risen to 47th out of 121 institutions compared to 56th out of 119 last year, a rise of 9 places.

National Student Survey (NSS) 2017 In the latest NSS students rated the University of Lincoln in the top 20 in the UK for academic support, learning resources and learning community. 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 Biochemistry, Social Sciences and Sociology. Eight areas were ranked number 1 in one or more of the question areas and 16 were placed in the top 10% in one or more areas.

'Lighting up Lincolnshire' The University is nearing the completion of its £130m 'Lighting up Lincolnshire' capital investment programme, which has transformed the campus, providing further world class facilities to support education and growth across the region. Summer 2017 saw the opening of the Isaac Newton building, the new home of Schools of Computer Science, Engineering and Mathematics & Physics, as well as a 500 seat lecture theatre, and the Sarah Swift building, which houses the Schools of Health & Social Care and Psychology.

'Active anchor institution' in Greater Lincolnshire Our role as an 'active anchor institution' is critical to the growth aspirations of Greater Lincolnshire. During the year we have worked closely with the Local Enterprise Partnership to further develop their Innovation Council. In seeking new ways to support and engage SMEs to further the translation of our research and drive regional economic growth, we have launched a £2.1m European Structural and Investment Fund (ESIF) scheme to deliver an innovation support programme across Greater Lincolnshire over the next three years.

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. During the last year the higher education landscape has continued to change as the political environment in which we operate has become more volatile. 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. Lincoln was one of only eight universities across the UK commended by the Higher Education Funding Council for England for its strategic approach to knowledge exchange in June 2017.

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 59 higher education providers out of almost 300 entered into the TEF to receive Gold – the highest standard possible.

In the latest Guardian league table the University is ranked 47th out of 121 institutions compared to 56th out of 119 last year, an increase of 9 places whilst we rank 50th out of 129 institutions in the Complete University Guide (CUG). In the 2018 Times and Sunday Times Good University Guide we are ranked 54th out of 129 institutions and placed in the top 20 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

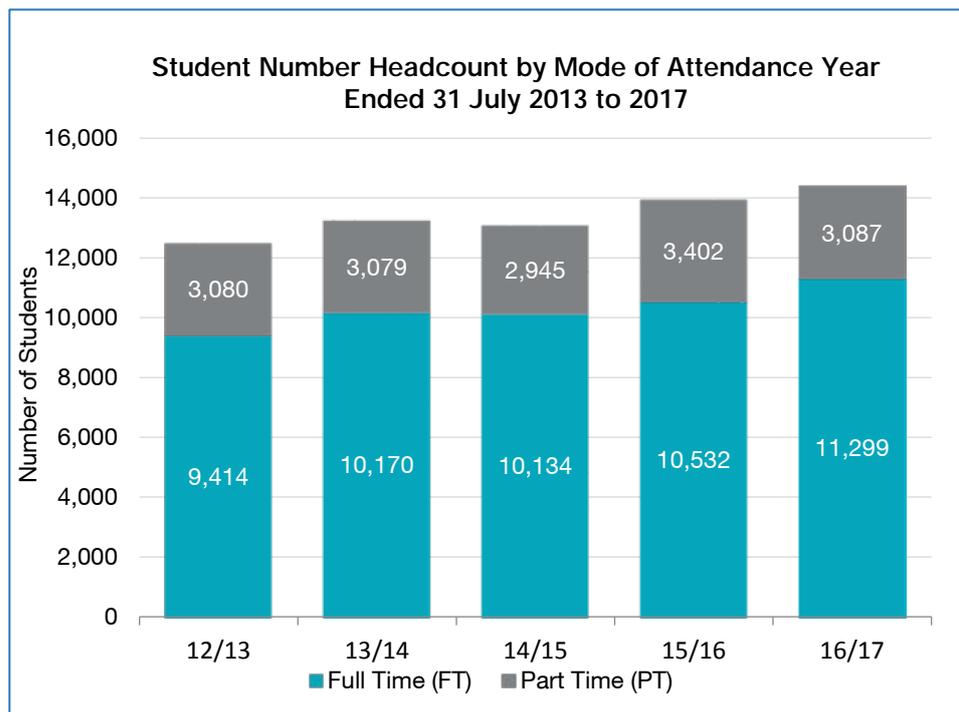
The University continues to identify student recruitment as one the key risks and opportunities that it faces and continues to make great efforts to meet targets on recruitment

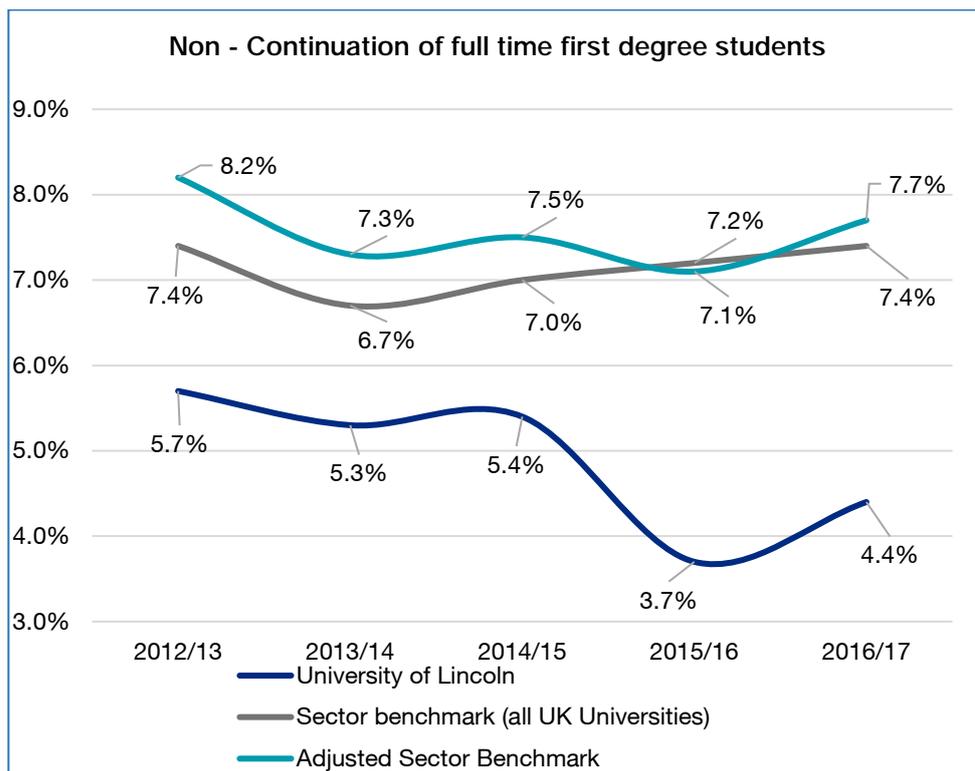
and retention. Demand for places at Lincoln remains high and we continue to see a year on year increase in student numbers due to both growth in existing subject areas and the development of new subject areas, particularly in STEM provision.

Analysis of UCAS data by WonkHE placed Lincoln in the top ten in the UK for sustained undergraduate recruitment growth over the past five years (based on % increase in 18-year-old acceptances). Student numbers for the 2016/17 academic year were the highest in the University's history.

The University also continues to perform strongly in retaining students, scoring significantly above the sector benchmark on the HEFCE 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.

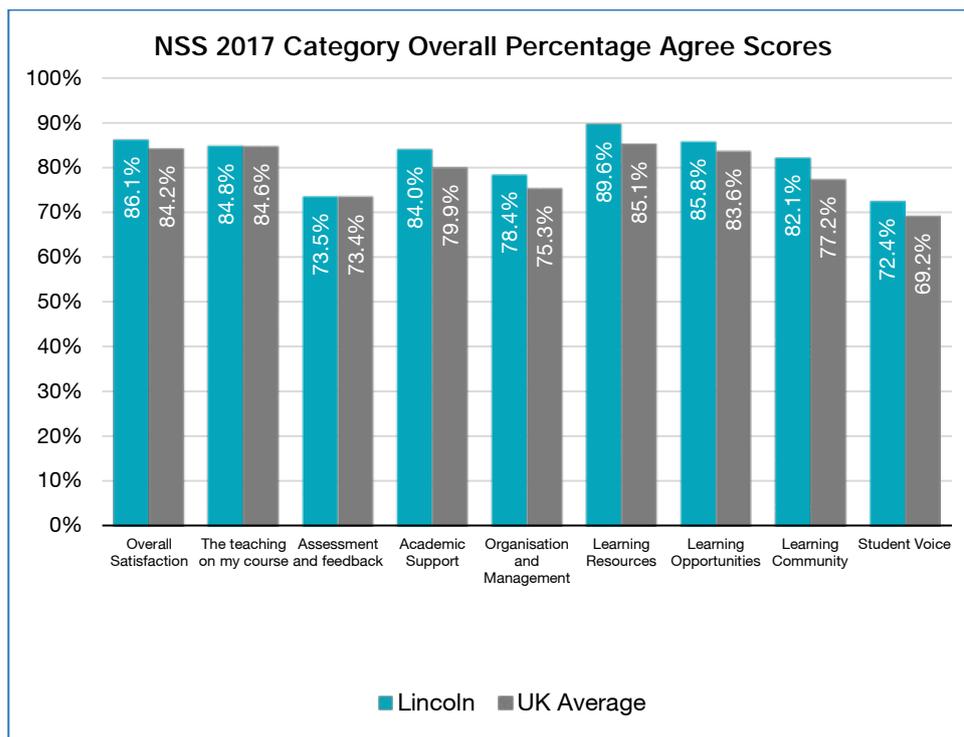
Review of the Year

Teaching Excellence and a Great Student Experience

Students are at the heart of everything we do. 2017 saw the University awarded Gold 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 only 59 higher education providers of the total 295 entering the TEF to be awarded Gold.

In terms of student satisfaction, students rated the University of Lincoln in the top 20 in the UK for academic support, learning resources and learning community. 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 Biochemistry, Social Sciences and Sociology. Eight areas were ranked number 1 in one or more of the question areas and 16 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.

As we grow and diversify our student numbers we continue to improve our campus to provide the environment for a great student experience. More than £275m has now been invested in the campus, transforming a brownfield site into an award-winning, state-of-the-art learning environment for the thousands of students who pass through its doors every year. A major £130m capital investment programme announced in 2015 is well underway. Construction was completed this year on three major additions to the Brayford Pool campus. Cygnet Wharf provides 442 new study bedrooms on the Marina site. The Isaac Newton Building houses the Schools of Computer Science, Engineering and Mathematics & Physics, as well as a 500-seat lecture theatre. The Sarah Swift Building on Brayford Wharf East houses the Schools of Health & Social Care and Psychology and improve the University's connection to the High Street.

The associated moves of facilities and staff will release thousands of square metres of academic space in the summer of 2017. This space is being refurbished and reallocated to support growth. In parallel, the University is progressing its phased implementation of the landscaping masterplan for the campus, and developing its long-term plans for Holbeach and Riseholme. As well as investing in our physical infrastructure we continue to develop and invest in our information systems and digital technologies to aid and support excellence in teaching.

Case Study: - Virtual Reality Crime Investigation

A Virtual Reality Crime Scene Investigation teaching and training tool was created through an interdisciplinary collaboration between the Schools of Computer Science and Chemistry. It was developed by a final year Games Computing project student B with supervision by a Computer Science academic. Working closely with colleagues from the School of Chemistry they developed a fully interactive, immersive and visually realistic teaching tool. Utilising the latest developments in Virtual Reality a Crime Scene House was created enabling students to investigate a crime. Different scenarios can be developed in this tool, providing many benefits over the traditional Crime Scene House including access to resources, recording of the scenario/interactions and dynamically changing the scenario as students are actively investigating the crime.

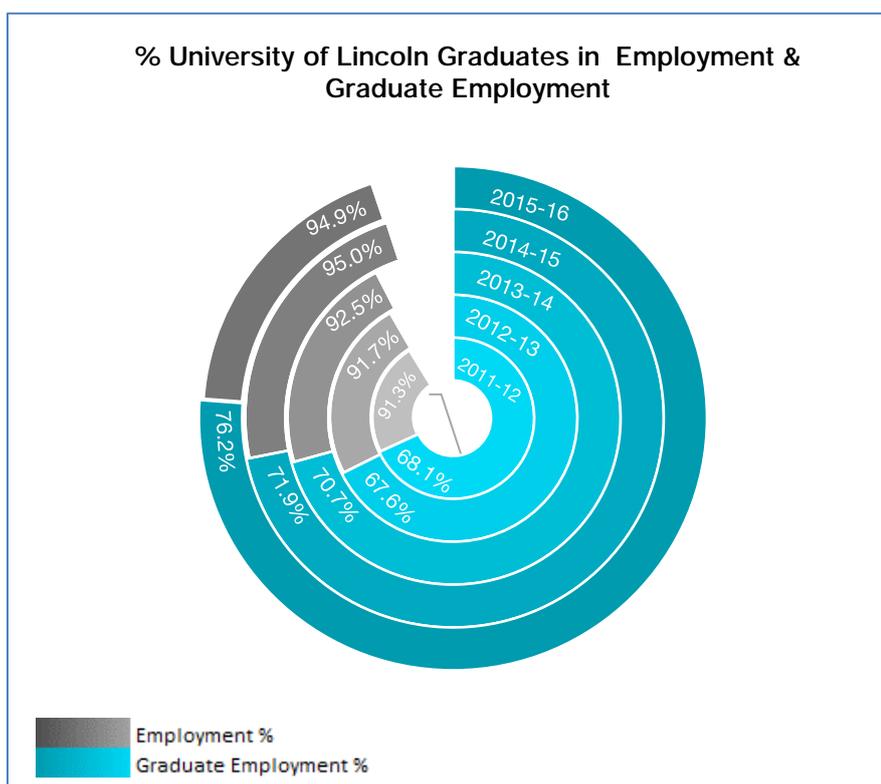
Graduate
Success

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% of our students graduating in 2015/16 were in employment or further study within six months of completing their course and 76% had secured graduate level roles. This reflects a year on year improvement in this area.

Careers and employability services are employer led and informed, and are offered both centrally and within the curriculum. This year has seen the Careers and Employability team involved in key institutional agendas such as personal tutoring, learning gain and the development of a graduate attributes framework. Working closely with colleagues in 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.



Case Study: - Campus Jobs - HR

The campus jobs initiative is the University's Student Employment Agency run through Human Resources. It offers a central pool of students who are available to work across campus on a range of activities from administration through to promotional support. In 2016-17 over 1000 students were active in jobs across campus fulfilling over 50 different types of roles. The initiative is helping to develop a culture in which staff and students work alongside each other to create one community whilst offering students the opportunity to develop life skills academic skills.

**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 highest standards possible.

The University's academic staff includes more than 60 substantive professors, who support a thriving research culture and a high-quality student experience and is home to 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 new vaccine development, agri-food technology, medical imaging for cancer diagnosis, anti-terrorist surveillance, conservation of historic buildings, treatment of insomnia and children's language development.

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

Case Study: - Body Image Research

Body image disturbance (BID), the perception that one is larger than one actually is, is a key feature in eating disorders, such as anorexia nervosa. We investigate why people develop BID and how to treat it. Using state-of-the-art scanning facility in the Sarah Swift building we simulate weight change in a photo-realistic virtual-reality environment, as part of a training programme to treat BID. In collaboration with NHS choices, we have also used the scans to create an online tool to test parents' perception of their children's body weight and provide advice on weight control.

Strategic report for the year ended 31 July 2017

Strong Partnerships and Employer Engagement

Lincoln is nationally recognised for our innovative approach to industrial (public, private and third sector) partnership. 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 (alongside the Universities of Newcastle, Cambridge and Manchester from the UK) continues to flourish with the size of Siemens' co-location on campus growing this year and a research portfolio funded locally and through Germany. In 2016/17, we secured grant funding of £1.95m towards the development of an Advanced Engineering R&D Centre, in partnerships with Siemens and the wider regional engineering cluster. Alongside this our partnerships continue to mature with organisations like the Lincolnshire Co-operative, particularly as the Lincoln Science and Innovation Park enters the next phase of its development. The opening of the Boole Technology Centre on the Innovation Park will allow increasing levels of industrial co-location driving even higher level of collaboration.

Our role as an 'active anchor institution' is critical to the growth aspirations of Greater Lincolnshire. During the year we have worked closely with the Local Enterprise Partnership to further develop their Innovation Council. In seeking new ways to support and engage SMEs to further the translation of our research and drive regional economic growth, we have launched a £2.1m European Structural and Investment Fund (ESIF) scheme to deliver an innovation support programme across Greater Lincolnshire over the next three years. We have worked hard to influence the developing 'Midlands Engine', building the Midlands Science Innovation audit, we have played a leading role in the development of innovation strategy, particularly around the agri-food.

Strategic report for the year ended 31 July 2017

Dynamic Engaged People

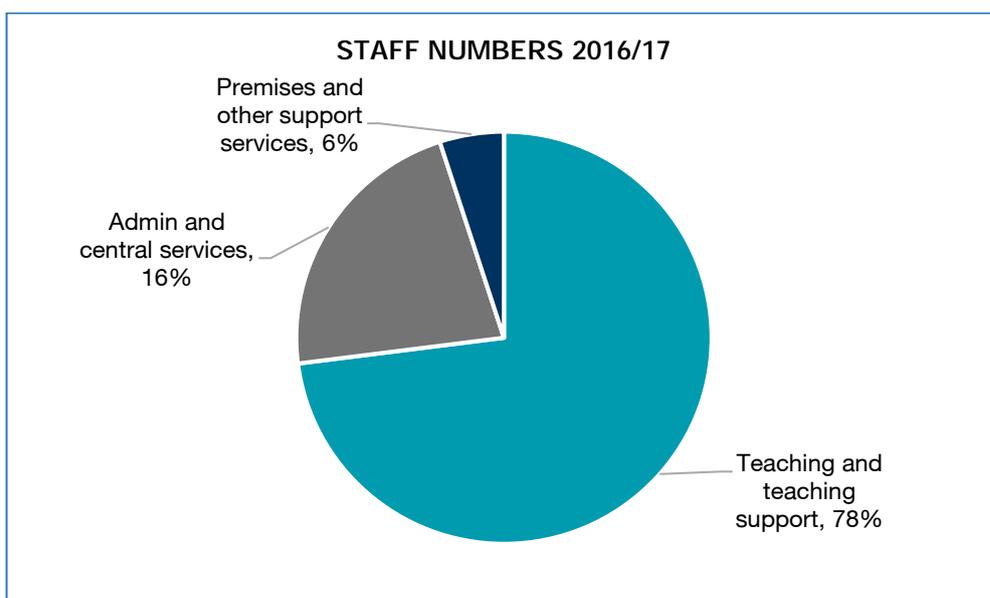
The University has made significant progress over the last five years. The pace of change in HE is increasing and Lincoln seeks to be ahead of the curve. This requires staff who demonstrate that by working together they can enhance the student experience, deliver excellent teaching and high quality research; taking the University to the next level.

Progress continues to be made around enabling technology and exploiting digital tools, with elements of online and 'self-serve' supporting our ways of working. We continue to focus on increasing capacity through better organisation to reinforce the University's reputation for innovation and excellence.

Organisational Development has continued to recognise the importance of our management and leadership provision, with a successful small development project bid granted from the Leadership Foundation for Higher Education (LFHE). This delivered a series of leadership interventions in support of Programme Leaders, and a case study report on 'Developing Academic Leadership and Innovative Practice'.

The introduction of the Degree Apprenticeship Levy also provides the University with an opportunity to review our staff CPD and career development provision, as work gets underway to support this agenda.

As the University grows and develops so does our workforce with average total staff numbers increasing to 1,576 full-time equivalents during the year compared to 1,446 in the previous year. A breakdown by area is set out in the graph below.



Strategic report for the year ended 31 July 2017

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-up / enterprises	Number of start-ups / enterprises
		Number of sustainable start-ups / enterprises still existing after 3 years
Dynamic engaged people	Developing excellence in teaching	Annual recognition for excellence / innovation in teaching
		Number of case studies per year of excellence / innovation in teaching
	Developing excellence in research	Number of case studies per year of excellent research
	Continuous improvement 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 is already putting upwards 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, and plan and control 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.

Financial year 2016/17 has been a challenging year with investment in new schools and programmes, primarily within the College of Science, and a further year of no inflation on Home/EU undergraduate fees. Despite these challenges 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.

Financial year 2017/18 is forecast to be even more of a challenging year. Whilst total income is forecast to grow, operating surpluses and cash generation are expected to be lower than 2016/17, as we continue to build up the new Schools and bring the new buildings and facilities into operation.

Student recruitment for 2017/18 has however been, on balance, very strong. Home/EU under-graduate and post-graduate intakes were particularly encouraging. This has been a result of both internal and external factors, including reputation, development of new Schools and programmes within the College of Science, continual review of both the under-graduate and post-graduate portfolios and changes to post-graduate loan system. The strong Home/EU recruitment has supported the challenges faced in the international market which continues to be very competitive.

With 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 world-class facilities to support education, research and growth across the region, enabling 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 us an excellent platform for the future.

During 2016/17 there has been some significant strengthening in the Senior Leadership Team of the University. Strategic capacity has been enhanced to drive the University forward through these challenging times, and to ensure we are able to seek out, embrace and exploit the new opportunities available to us.

Financial review for the year ended 31 July 2017

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 allowed 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 £143.1m, up 3.2%
- ❖ Research income of £8.6m, up 37.6%
- ❖ Operating surplus for investment and growth of £1.2m (see below)
- ❖ Expenditure on academic departments and academic support of £77.8m, up by £5.6m
- ❖ Net assets as at 31 July 2017 of £156.4m, up from £148.4m
- ❖ Capital investment 2016/17 of £53.1m, with £125.1m invested over the last five years
- ❖ Cash generated from operating activities of £17.1m, being 11.9% of income

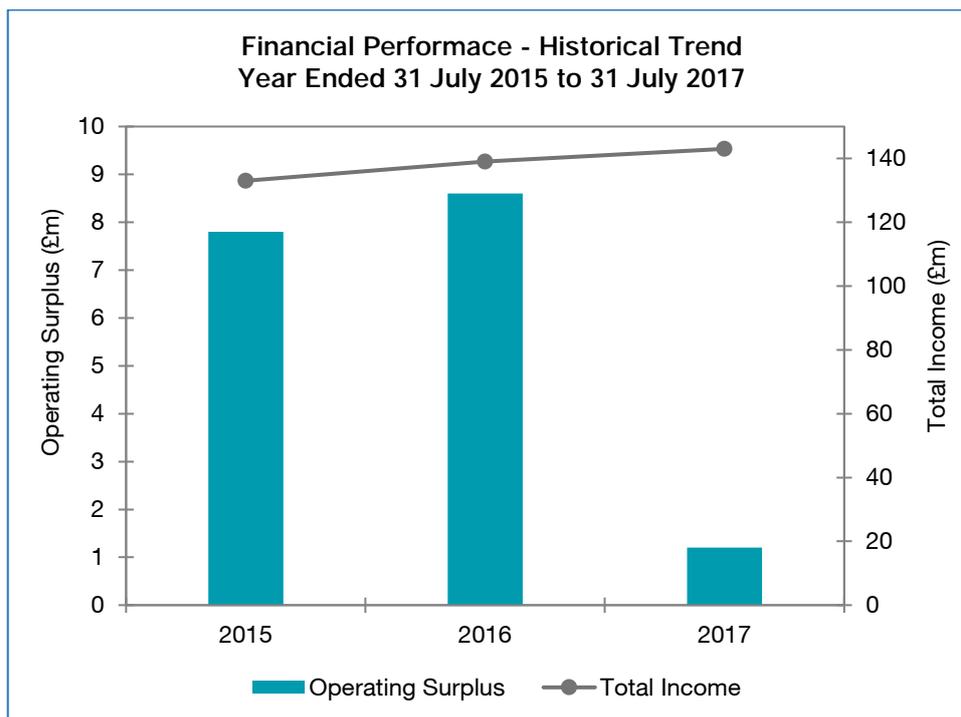
Income and Expenditure

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 EBITDA (earnings before interest, tax, depreciation and amortisation). We consider that these measures give a more useful view of underlying financial performance.

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



Operating surplus has decreased significantly from £8.6m to £1.2m. This lower surplus reflects the substantial level of revenue reinvestment in the period 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 who are excellent within their field, high-class teaching support and teaching equipment;
- investment in research academics, facilities and equipment to support the research engaged teaching agenda;
- academic recruitment to reduce student : staff ratios (SSRs) and improve the quality and quantity of student academic interactions;
- the running costs associated with the new teaching and research facilities including the state-of-the-art Isaac Newton and Sarah Swift Buildings; and
- increased investment in the University of Lincoln Student Union to support the growth in sports activities, clubs and societies.

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.

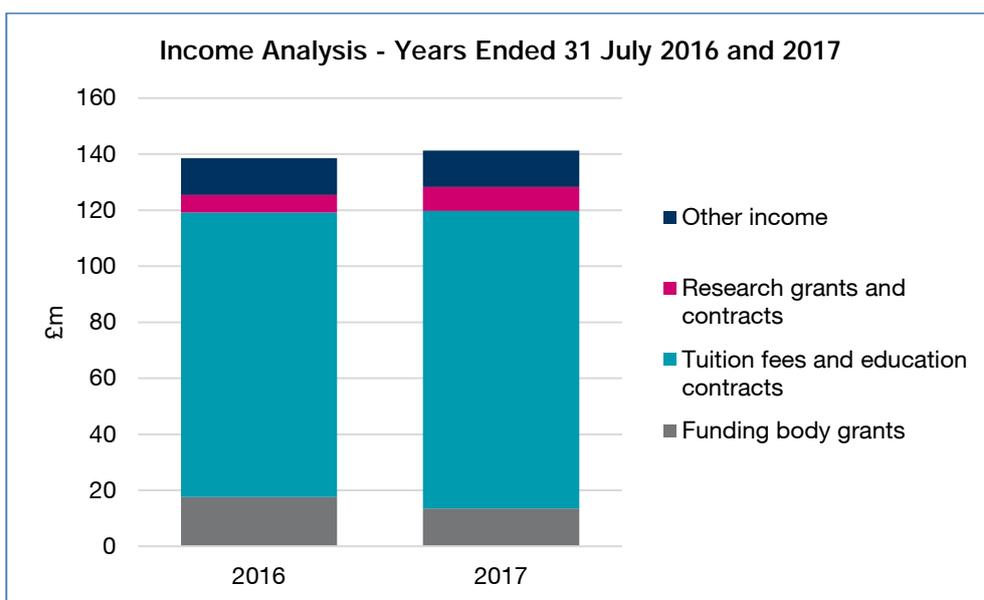
- The table above starts at the 'Surplus before tax' as set out on the income and expenditure statement on page 42. This therefore excludes the market adjustments, being the change in fair value of investment property and the actuarial gains and losses on the pension scheme. These are non-operational 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.

Financial review for the year ended 31 July 2017

- The interest charge on the pension schemes have 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:



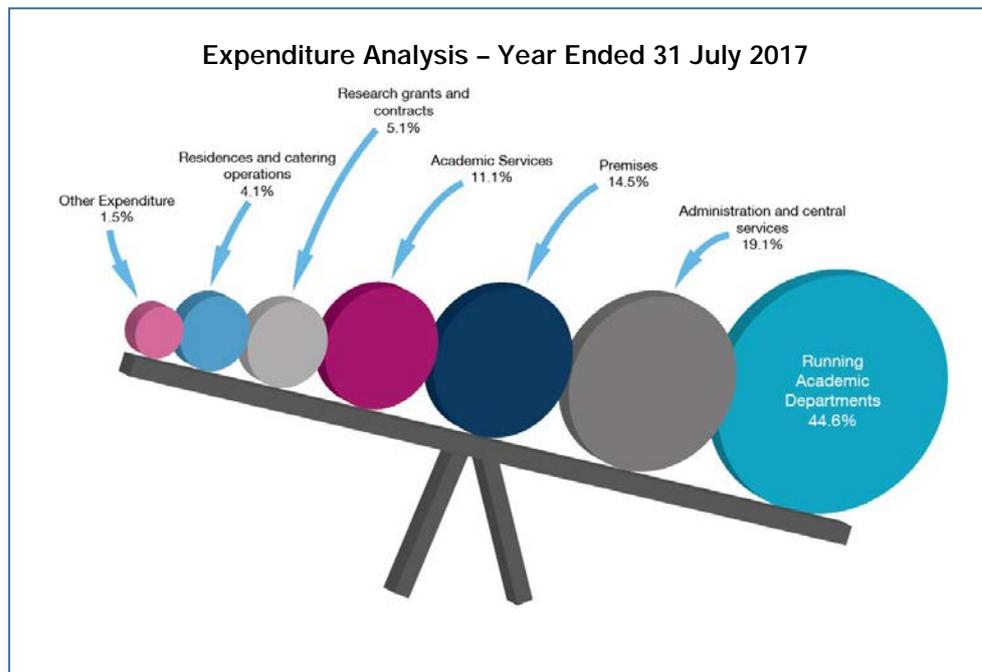
Tuition fees and educational contracts includes both Home/EU and International students. Full time international tuition fee income accounts for 11.6% of the total tuition fees (2015/16: 12.2%). This has reduced year-on-year largely due to the increasing competition in the global market and the challenges faced in attracting international students.

Funding body grants includes £1.7m (2015/16: £6.0m) 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 sundry amounts.

Expenditure

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



Academic expenditure accounts for 55.7% (2015/16: 55.1%) 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 11.6% between 2015/16 and 2016/17. 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 £156.4m, which is an increase of £7.9m compared to the prior year. The increase is in part 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 £282.8m (2016: £238.3m), with capitalised expenditure during the year of £53.1m. Key capital investments include:

- the completion of phase two of the Isaac Newton Building;
- the completion of the Sarah Swift Building;
- the near completion of the Cygnet Wharf 442 bed student accommodation development; and
- the continued substantial investment in information technology as part of a five-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.

Financial review for the year ended 31 July 2017

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 decreased from £22.4m to £12.8m.

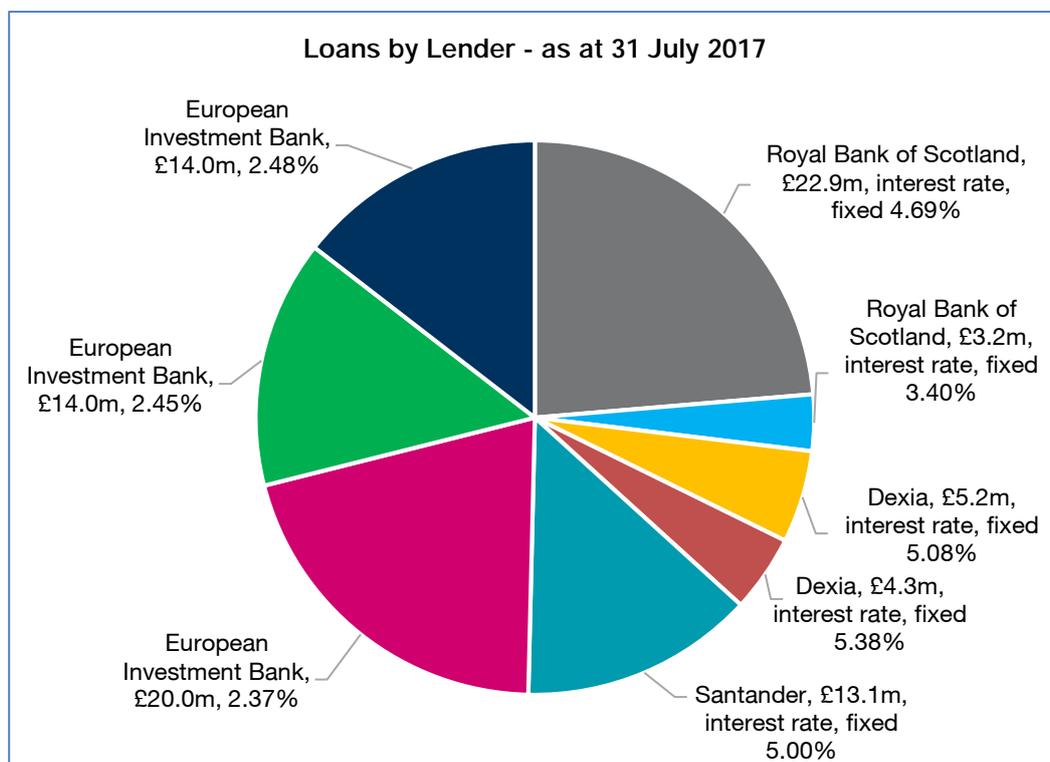
Cash and current asset investments (bank deposits accounts) of £34.8m have decreased from the prior year due to significant investment in the capital programme, with three major capital projects, as set out above under fixed assets, either completed or near completion as at 31 July 2017.

Long term liabilities

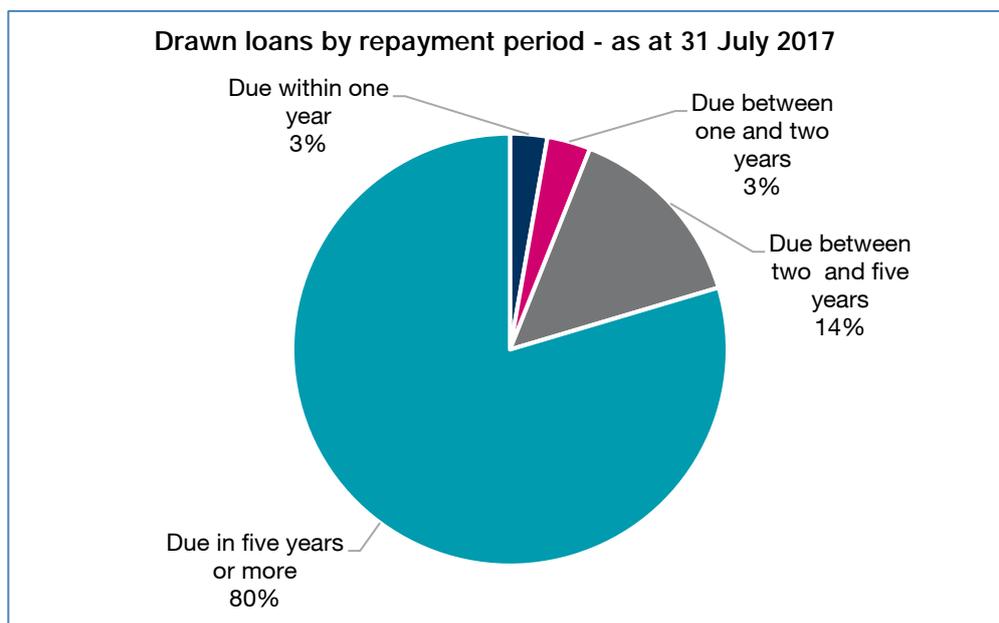
The University's long term liabilities primarily comprise bank borrowings. As at 31 July 2017 borrowings amounted to £96.7m (2016: £71.3m).

During the year the University drew down the final £28m tranche of the EIB funding to support the current capital investment programme.

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



As at 31 July 2017 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 £42.6m (2016: £45.3m). The provision is based on estimates provided by the University's actuary in accordance with FRS102. The deficit position at the year-end is proportionately in line with most other participants in the scheme.

The funding position has improved during the year primarily as a result of a change in 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.

Up to 31 March 2017 the University's employer contribution rate was 28.1%. This reflected 17.8% in respect of the future service rate and 10.3% deficit recovery repayment. The deficit recovery repayment was based on a 15 year recovery plan as at the 31 March 2013 formal actuarial report.

From 1 April 2017 the University's employer contribution rate was 25.3%. This reflected 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.

Financial review for the year ended 31 July 2017

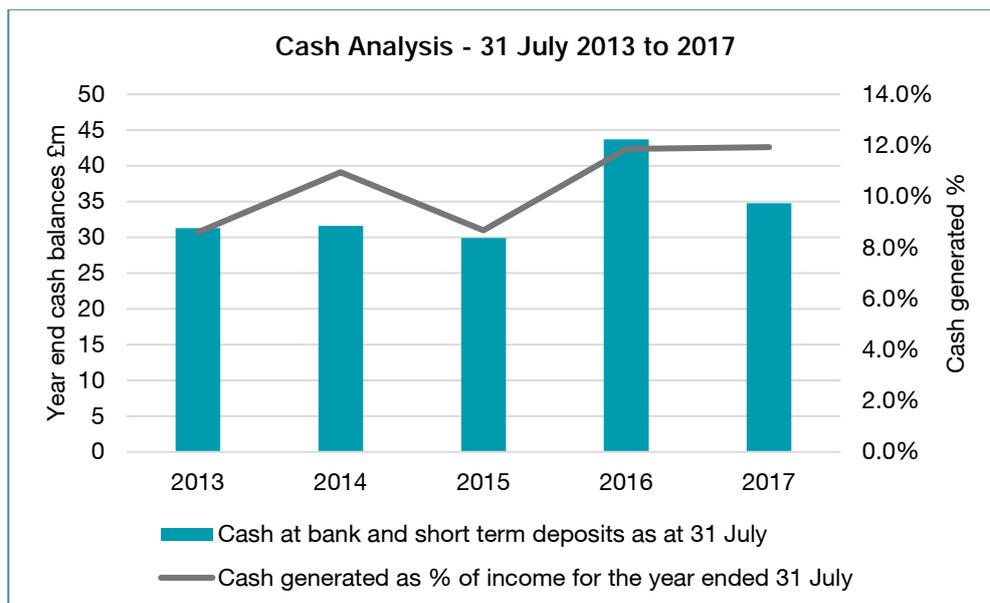
Cashflow

Cash generated and cash balances

The consolidated cashflow statement shows the net cash inflow during the year from operating activities was £17.1m (2016: £16.4m). Cash at bank and short term deposits decreased from £43.7m to £34.8m.

Cash generated from operating activities was 11.9% of total income (2016: 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 2017, 77% (2016: 100%) of cash, cash equivalents and short term investments was deposited with UK banks and building societies. These banks and building societies met the three major credit rating agencies (Moody's, Standard and Poor's and Fitch) minimum ratings as determined by the Treasury Management Policy. The remaining 23% (2016: 0%) was invested in a sterling money market fund which is 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.

Financial review for the year ended 31 July 2017

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 2017 the University had 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 2017 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 £34.8m and bank borrowings of £96.7m, leaving net debt standing at £61.9m. All of the University's external funding is long term in nature, with 97.2% repayable beyond one year, and 79.6% 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 considers 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 for the year ended 31 July 2017

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 will 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. Since 1 June 2010, the University has been regulated by HEFCE 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 the Charity Commission's guidance on public benefit.

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 contributes 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.

Further examples of how the University contributes to the public benefit are set out below, giving specific details by College.

College of Arts

The College of Arts comprises the Schools of Architecture and the Built Environment, History & Heritage, Film & Media, English & Journalism, and Fine & Performing Arts. The College undertakes programmes of research, teaching, learning and professional practice across a wide range of interrelated subjects. This work is disseminated to our various professional constituencies and the public in several ways – public lectures, conferences, outreach work, online and printed publications, exhibitions, installations, museum and architectural restorations and interventions, consultancies, the public environment, performances, festivals, and various forms of knowledge transfer.

The College, home to Siren FM, our 24/7 community radio station, won East Midlands Station of the Year in 2014 and 2015. The School of Film & Media (LSFM) co-ordinates a 'Radio in Schools' project each year, supporting final year undergraduates to work with up to ten Lincolnshire schools, enabling children and young people to create radio productions for broadcast at Siren FM. LSFM has also supported the creation of New Media Lincs which was set up as a social enterprise to support local charities, schools and arts organisations to plan for and negotiate any media production needs they have, and to engage students in the creation of high quality media products that help promote their work. The Media Archive of Central England (MACE), which contains the recorded media history of our region, is based within the School.

The Lincoln Performing Arts Centre (LPAC) runs a wide range of engagement activities aimed at encouraging new audiences to participate in the arts, such as free weekly drop-in sessions for pre-school aged children. The programme of events at LPAC is carefully designed with the wider community in mind and features challenging contemporary theatre alongside more mainstream offerings and gala events such as the annual Christmas show. LPAC links with the Lincoln School of Fine & Performing Arts, and the two bodies combine to send a company of students to the Edinburgh Festival Fringe each summer, with three plays performed during August 2016. The school of Fine and Performing Arts has a wide range of activities as part of our collaborative communities ethos including Primary School tours, Performance in a Social Context collaborations, as well as a range of Fine Art exhibitions across the City of Lincoln.

The School of English & Journalism runs a School Newspaper Project, through which Lincolnshire schools benefit from academic and industry experts visiting to help pupils partake in the practice of newspaper journalism. The School also helped organise a major conference for the British Association of Victorian Studies (BAVS) with Bishop Grosseteste University in August 2017 which attracted an international audience of scholars. March-August 2017 also saw the fourth series of the Older Readers' 21st Century Literature book group, bringing together just over a dozen mature readers for discussions on the University campus. Siren FM continues to form an important part of the School's local engagement programme. As part of a well-established work experience programme, there have been 35 formal week-long work experience placements with students from Lincolnshire schools, as well as mature volunteer roles during the same period.

The International Bomber Command Centre Digital Archive, supported by the Heritage Lottery Fund, is now well underway. Oral testimony has been collected on the bombing war, 1939-1945, from veterans and civilians on both sides of the conflict. Nearly 700 interviews have thus far been recorded. The Archive also scans personal memorabilia such as photos, diaries and logbooks; all this material will be freely available when the Archive goes live online in 2018. The Archive team are also responsible for curating the exhibition in the new International Bomber Command Centre, which opens in Lincoln early in 2018. The AHRC funded Imprint project, using forensic techniques to investigate and compare hand prints on the reverse of medieval seals, has both helped further scientific and commercial research and has disseminated its work widely. The project has offered several important links with industry. Its findings are being used by Forensic Focus Ltd, an independent forensic company which works closely with the Police and the Home Office, to investigate how prints can be lifted from and examined on uneven surfaces and in particular the ways in which soft and malleable materials like wax affect the distortion of prints. The project's extensive use of cutting edge technology produced by the company Foster & Freeman is enabling that company to adjust and adapt that equipment. The project team has also presented its findings in public lectures in London, at the Society of Antiquaries, at Oxford and at Hereford and has also published its preliminary results in *New Scientist*.

The School of Architecture and Design engages in a range of activities. As part of the national 2016 'Big Draw' public Festival of Drawing the School (supported by Computer Science), hosted a Big Draw Event for children from schools in Lincolnshire. The event was specifically intended to raise the profile of the University amongst children from areas of the county that have a low uptake of applications and progression to HE, and intended to raise their aspirations for Higher Education. 180 pupils drawn from Primary and Secondary Schools in Holbeach, Horncastle, Branston, and Skegness joined University staff and students for the 'Marvellous Mechanicals' event. In line with the Big Draw's 'S.T.E.A.M. Powered' theme, the University teamed up with partner Siemens UK to give children exclusive access to the company's on-campus turbine training facility, where they were able to experience working with very large scale image making to produce charcoal-based drawings of the turbines. They also visited the University's 'Maker Lab' where they designed and created personalised robot heads, and its Technology Hub, where they experimented with digital technology by drawing in a 3D virtual reality space, Google's Tilt Brush, a virtual reality painting programme. The School also participates in the Sorrell Foundation's National Art & Design Saturday Club programme, which offer pupils aged 13 to 17 in the Lincolnshire region a unique opportunity to engage in a range of art & design related works in the studios of the School. The School has also established a community art club at St Peter at Gowts School for children in the City of Lincoln aged 5 -11. The community club was delivered for 2 hours every week over a period of 20 weeks and

enabled the children from the Sincil Bank community to experience some of the creative practices conducted at the School of Architecture & Design. Finally, working with local councils and residents, the School has been actively engaged in projects in the Sincil Bank area of the City. The Sincil Bank region of the city has many different nationalities living in close proximity and the projects that have been delivered have aimed to bring these communities together and transfer creative skills. The Sincil Bank street fashion project is an ongoing project and has seen many local residents use fly tipped waste to create fabric based prints on the street and create a street fashion collection. The project is developing into a local brand which aims to continue to bring communities together and transfer further creative skills. The project has also been conducted in Guangzhou, Beijing, Guizhou and Xuzhou China.

College of Science

The College of Science comprises eight Schools and the Lincoln Institute for Agri-Food Technology (LIAT). In September 2017 the College welcomed more than 1000 new undergraduates to study science and engineering, including the first cohorts of Geography students. The College of Science has continued to conduct world-leading research in its areas of focus, working collaboratively with external partners from within industry, higher education and other sectors on a global scale.

The new School of Geography has already contributed significantly to public engagement and publicly engaged research. Their research includes: collaboration with the Met Office on research to improve seasonal weather forecasting and new research into the potential impacts of climate change, investigations to better understand the spread of malaria in Africa, a project (with LIAT and Lincoln International Business School) to develop salt-tolerant crops in an attempt to "future proof" agriculture against coastal floods and work to provide evidence on the needs for future rural policy outside of the EU. Their outreach activities include lectures for the Royal Meteorological Society and for local Astronomical Societies and work with schools, including contributions to teacher professional development and work with the Merseyside Police Force.

The Lincoln Institute for Agri-food Technology has been involved in a comprehensive list of engagement activities inviting regional and national agricultural stakeholders, to the Riseholme and Holbeach campuses, to share developments in agri-tech research, including how LIAT and partner organisations are seeking to tackle the challenges that the agri-food industry faces. Themes for breakfast briefings have included: soft robotics and manipulation, soil health and ecosystems, agri-robotics and precision farming and the impact of coastal flooding on agriculture (in collaboration with School of Geography, as above). The Institute has also hosted and led a national forum on the industrial digitalisation review of the food and beverage sector (which generates over £108bn GVA), welcoming the Chief Executive designate of UK Research and Innovation (UKRI) to hear about the work that LIAT is doing within this area.

LIAT also actively supports the Lincolnshire Agricultural Society, a local agricultural charity with a key objective to educate about food and farming. LIAT academics offer practical support and financial sponsorship is afforded by the School. Our campus at Riseholme provides the Lincolnshire Young Farmers, a rural youth organisation, with office space and access to University amenities and infrastructure to help support their aims of providing opportunities and life experiences for their young members.

The LIAT team's research into the impact of rising sea levels, coastal flooding and saline agriculture has led directly to an enhanced funding opportunity for wider European research with partners in North Sea countries. The findings from the initial research were shared with our local stakeholders including the agricultural community, Internal Drainage Boards, the Environment Agency and national coastal advisors at a public engagement event with the vice chairman of the Advisory Committee on Green Growth for Europe of EU, DGRI.

The School of Engineering engaged in outreach designed to enthuse and inform the public about engineering. They helped to organise and run the engineering festival SPARK! held at Lincoln Cathedral – with more than 10,000 visitors exploring our student-built exhibits; followed by activities with Lincolnshire schools, with c. £30,000 funding from the Royal Academy of Engineering, aimed at generating interest in engineering among young people. They also participated in the Lincolnshire Show and co-hosted the Siemens Family Day,

where over 100 families of Siemens employees from Lincoln visited our labs and learned about the work of the School.

The School also continued their close working with industrial partners. Projects included: process improvement in local industry (e.g. Siemens KTP improving the test procedures for new gas turbine engines), knowledge interchange via the hosting of conferences and meetings with industry (Institution of Diesel and Gas Turbine Engineers, GLLP Manufacturing Conference, Lincoln Engineering Breakfast forum), working with Tesco to manage electricity demands, finding new ways to automate and improve efficiency of agricultural processes, introducing new additive manufacturing techniques to help local industry and finding novel ways to reduce the risk to our military from improvised explosive devices.

The School has published research in many areas of potential public benefit including: improving the safety of automated and conventional road vehicles via collaborative research in Sweden and China, reducing the emissions of internal combustion engines, improving the reliability of industrial power systems using laser ignition, improving fault monitoring of industrial machinery using networked data and the Internet of Things, researching the next generation of high-speed tilting trains in collaboration with Italy's Politecnico di Milano, developing novel ways to help the food industry improve products and processes (eg:-laser sealing, materials improvement), and helping to improve the environment by developing renewable sources of fuels and chemical products.

The School of Computer Science's public engagement work includes contributions to the University's LiGHTS Nights Event, strong links with the local University Technical College (UTC), including bi-lateral visits and collaborative events as well as work experience and also visits with other local schools. The School has also teamed-up with local social enterprises to provide a bridge between local communities and the University. There are increasing links and interactions with both local and national industries for placements and projects.

The School's research is regularly disseminated through both scientific and news media, and it further provides significant public benefit through developments such as the use of technology in helping the elderly live fuller lives; games designed for young wheelchair users; bio-inspired systems; human-centred robotics and assistive technology; autonomous systems; improving success rates in organ transplants; the detection, characterisation and treatment of disease (cancers, diabetes, etc.) using a range of approaches; proton CT imaging of biological samples (world first) for improving treatment accuracy; and agri-robotics research that could be transforming our food and drink supply chains and industries.

The School of Pharmacy has been highly involved in the local community offering inspiring School Challenge Days and visits, establishing a placement programme for our students in hospital, community and primary care including a Community GP programme when students meet and work with patients over a year. It is working with United Lincoln Hospitals NHS Trust (ULHT) to develop joint R&D initiatives, and working with the Lincolnshire Cooperative, ULHT and North Lincolnshire and Goole NHS Foundation Trust (NLAG) with joint teaching appointments. They have also established a working group with the local Sustainability and Transformation Plan Delivery Unit and a range of local stakeholders to develop and provide governance to new Clinical Pharmacist working in GP Practices, including the development and integration of clinical pharmacy into neighbourhood teams. Their students are active members of the British Pharmaceutical Students Association and several have had summer placements abroad and in the UK.

Research continues in the following areas: crystallisation and crystal engineering; drug delivery to brain tumours; Nanomedicine; Phytochemical bioactivity of medicinal plants; synthetic receptors as chemical biology tools; antibiotics; DNA based diagnostics; diabetes; and development of medical devices, specifically to treat infections in chronic wounds / surgical wounds.

The School of Chemistry has continued with its external and outreach activities. In collaboration with the School of Education, the School is pursuing a programme with the QAA to evaluate the new practical skills assessment of A levels. The school also developed an innovative outreach programme in collaboration with the Royal Society of Chemistry and is now an accredited centre for the Spectroscopy in a Suitcase initiative that allows

schools staff and pupils to access high level instrumentation in Nuclear Magnetic Resonance (NMR), mass spectrometry and vibrational spectroscopy.

The School (with Life Sciences and Pharmacy) has established a commercial projects group – JBL Sciences – to bring analytical and formulation science solutions to regional and national industries. With dedicated resource for delivery, the group have instigated several projects through ESIF Innovation Vouchers and these are enabling companies to access Lincoln's resources for the first time. In some cases, these interactions have positioned Innovate UK bids and supported KTP programmes alongside directly-funded collaborative research programmes. The resources also support other industry-facing functions of the University and, notably, supported a joint workshop with Lincoln Conservation to present these extended opportunities to regional heritage and conservation industry groups.

The JBL Science models are being developed with industry to create a 'Bridge Lab' in materials science and engineering in collaboration with Siemens and other high profile regional companies. This innovative initiative to create fully-integrated research and development resources that are jointly provided by the University and its industry partners, has attracted support from the Greater Lincolnshire LEP and brought together providers with a common enthusiasm for regenerating Lincoln as a centre of innovation in materials science and engineering.

The School of Life Sciences has offered a number of outreach activities across the last year. Their first Bioblitz event on the Lincoln campus took place in October 2016, hosted by Life Sciences staff and Visiting Professor Chris Packham. The School also took part in the European wide LiGHTS festival to promote science to the public, and hosted a number of demonstrations, lectures and interactive exhibits. Staff from Life Sciences have given public lectures to the University of the Third Age (U3A) and the Women's Institute, as well a scientific lecture as part of World Asthma Day. Media appearances have included local and national broadcast media appearances offering expert insight on topics as diverse as Avian Flu and Animal Behaviour. Work undertaken with a local school has also been rewarded with an Investors in Education award for Life Sciences staff.

The School continues to conduct research in many areas of immediate public benefit, including the health and welfare of broiler chickens, the benefits of pets to families with autistic children; genetic indicators of stroke in an ageing human population, physiological impacts of type 1 and type 2 diabetes and the genetic basis of obesity.

The School of Mathematics and Physics was newly established in 2016/17 and has already published research findings including: the development of algebraic foundations of mathematics; and advances in fundamental computational and theoretical physics of soft and solid matter, including membranes, polymeric nano-composites and solid surfaces with nano-materials self-assembly.

There were two international Algebra conferences and a pan-European Crystallize COST meeting, all in Lincoln. Also the School hosted eight public lectures in Mathematics and Physics in Lincoln and wider in UK, including a four-part distinguished lecture series named after famous mathematicians and natural philosophers from Lincolnshire: George Boole, Edward DeLaval, Charlotte Scott and Robert Grosseteste.

Public benefit: The University as a charity for the year ended 31 July 2017

College of Social Science

The College of Social Science consists of six Schools - Law, Sport & Exercise Science, Social & Political Sciences, Education, Psychology, and Health & Social Care.

The Law School engages in and supports a wide range of extra-curricular activities, a number of which have wider public benefit, including:

- a student-run "law clinic" which provides legal support to staff and student members of the University community;
- the 'Streetlaw' initiative that gives students the opportunity to provide legal education classes as part of GCSE and A level programmes in schools and colleges; and
- various public lectures on wide-ranging public interest topics.

The School has an Advisory Board made up of local professionals to support its work, and on a number of occasions the School has run seminars for the local profession in the changing nature of the legal profession. The Law School is also proud of its student law society, which has had a busy year of activities and which often makes links with the local professions.

The School of Sport & Exercise Science delivers a range of undergraduate programmes including Physical Activity and Health Development. Students on the BSc Sport Development and Coaching degree engage with communities through working in schools and clubs, and through a module on Adapted Physical Activity, exploring disability within the context of physical activity. Members of the Health Advancement Research Team (HART) are working on a research study with the Lincolnshire Health Trainer Service, part of Lincolnshire County Council.

The School has current research in areas including lived experience of asthma; and physical activity, ageing and embodiment. Other research projects of note include:

- Local Food in Lincolnshire: Improving Access to Healthy and Affordable Food for all;
- Providing Weight Management via the Workplace;
- Implementing a Community based Obesity Prevention Programme: Experiences of Stake Holders in the North of England; and
- Evaluating Lincolnshire's Exercise Referral Obesity Data.

In addition, the School has begun consultancy work with MacMillan, considering people's experiences of exercise during cancer, and also works with Slimming World, evaluating online support.

All staff of the School of Social & Political Sciences are research active and are working on a wide range of topic areas including e-petitions, intelligence and security services, single parent family policy, young people and politics, citizenship, pedagogical issues such as assessment and feedback, and area studies such as Chinese and Russian politics.

The number of postgraduate research students within the School has grown exponentially and their work includes studies looking at young people and domestic violence, a sociological analysis of brass banding communities, and changing attitudes to welfare benefits in the UK.

The School of Education has developed a School Centred Initial Teacher Training (SCITT) Postgraduate Certificate of Education (PGCE) programme for trainees wanting to be secondary and primary school teachers. The programme has developed in partnership with two local groups of schools; one led by St George's in Sleaford, the other, the Lincolnshire Teaching School Alliance (LTSA), led by the Priory Federation of Academies in Lincoln. The aim of this programme is, in conjunction with our local partnership schools, to train first class teachers in order to help alleviate the shortage of teachers in the Lincolnshire area.

The School of Psychology delivers a range of undergraduate and postgraduate Psychology programmes. Staff have won grants from the UK research councils for projects with real impact. These include studies of – how to help children with visual impairment; to improve diagnosis of language delay; to explore our perception of

movement. A recent student led campaign was developed to raise awareness of dementia through the Dementia Friends scheme. Staff research in the area of cognitive function and neuropsychology is tackling practical issues relating to patient care and assessment in collaboration with organisations such as the Order of St John Care Home.

The School of Health & Social Care is working in collaboration with City of Lincoln Council and a broad range of health and social care agencies to launch a strategy towards Lincoln becoming a Dementia Friendly City. This initiative built upon the School's engagement with Lincolnshire County Council's Excellent Ageing strategy.

The Community and Health Research Unit continues to expand its reputation, as confirmed in the most recent Research Excellence Framework, for the quality of its outputs and their impact upon practice. Current research projects include pre-hospital emergency quality and outcomes; quality and outcomes in primary healthcare; healthier ageing; narrative approaches to enhance clinical care for patients with asthma, prescribing safety for GPs plus a recent major award for a study on Improving cardiac arrest recognition and effectiveness.

Beyond the School and the College, the Lincoln Institute for Health (LIH) is establishing itself as a cross-university research collaboration, formed to research key health and social care problems using a multidisciplinary and multi-professional 'bench to bedside, cell to community' approach.

Lincoln International Business School

The Lincoln International Business School has completed a full year as a discrete College of the University having previously formed part of the College of Social Science. Since this change in organisational structure there have been numerous developments and changes within its strategic direction.

The College has recruited into key posts to support the development of its strategy and contribution to the local regional economy. Ruchi Aggarwal was appointed in June 2017 as Director of Business Development just as the LLMC (Lincolnshire Leadership and Management Centre) changed its positioning and its name to the Executive Development Centre. This has already produced a successful key networking event called LIBS Connect which has reached out to over 60 businesses and lead to successful enrolment onto its first offering under the new brand – Development of a Managerial Mind-set programme.

The College Advisory Board has been actively involved as have other local stakeholders to support the process of positioning for the Executive Development Centre.

More recently the senior management team has been consolidated with recruitment of heads of department and key academic posts. This structure will help to facilitate a more dynamic approach to enable the College to achieve its vision over the next few years of increasing growth.

There are six research groups in the College: Lincoln Economics and Finance (LEAF) Research Group; Visitor Economy Research Group; Regional and Rural Enterprise Research Group; Marketing and Supply Chain Research Group; Community Organisation Research Group and Responsible Management Research Group. Running through all of the groups is a set of shared or common themes including responsibility, sustainability and ethical behaviour. A recent professorial appointment to the team is Steve Armstrong whose research interests lie in the field of individual differences, psychology and person-environment fit.

Both the undergraduate and postgraduate portfolios have been revalidated to include Sports Business Management and Tourism and Marketing respectively. The undergraduate portfolio has also seen an addition to its subject mix with a new Business Psychology programme. Our Chartered Manager Degree Apprenticeship programme in Professional Practice in Leadership and Management has been introduced to support the changing needs of our market.

Public benefit: The University as a charity for the year ended 31 July 2017

Business innovation and incubation

The University provides a supportive environment to start-up and growing businesses established by our students, staff, graduates and the regional economy through Sparkhouse, the on-campus Business Incubation Centre, and the Think Tank, the Innovation Centre. To date we have supported more than 600 businesses, including 403 new businesses and helped create more than 580 new jobs; many of these businesses have been started by the University's own graduates, relating in particular to the innovative use of technology, including graphic design, online marketing and social media.

The Student Enterprise Service (SES) provides entrepreneurial students and graduates with the guidance and resources they require, to turn their business ideas into realities and helping them to become self-employed. Dedicated to offering easily-accessible support, SES provides a forum for both students and graduates where ideas can thrive, problems can be solved and where skills can grow. Responding to demand, we launched the UoL Enterprise Network, which meets monthly, led by students and supported by the Business Incubation and Growth team. The informal meetings have guest speakers and networking to encourage peer learning, networking and cross collaboration. 2016/17 saw the launch of the Growing Graduate Enterprise Programme, established to support graduates across Greater Lincolnshire to start their own business through mentoring, training and grants. This project, with a total value of over £600,000, will support 90 graduates in starting their own businesses. This year also saw the opening of the "Ideas Hub", a dedicated space specifically designed for students and graduates to work on their businesses. This inspiring space can be used for meetings or hotdesking with IT equipment provided and support close by when needed.

In 2016/17 we engaged with 273 individual students, 137 attended training and development workshop and 115 students went on to start their own businesses with our support. During the year, Sparkhouse and Think Tank have supported 45 tenants and 59 virtual tenants as well as helping 133 new businesses to start, including graduate startups, creating over 151 new jobs. Our services are tailored to individual needs with access to accredited incubation support and advice, and training and development workshops helping businesses to thrive and achieve their very best. 2017 saw an increase in Sparkhouse and Think Tank tenants being nominated for Lincolnshire Business awards, with two winners and three runners-up.

2017 also saw the start of a three year Innovation programme, part funded by the European Regional Development Fund. This aims to support micro, small and medium businesses through the innovation process by providing practical assistance and grant funding. A number of schemes make up the programme:-

- Innovation Vouchers award businesses up to £5,000 of academic staff time, imparting valuable research knowledge to the development of projects.
- Proof of Concept funding finances up to £10,000 for those who are looking to purchase equipment or complete marketing testing to develop their idea past the initial stage.
- Specialists are available to provide much needed business support and advice covering a range of business sectors and a variety of functions from marketing, logistics and organisation, to new product development and finance.
- Internships in cutting edge projects offer the county's graduates opportunities to work on something truly unique, while providing the business with a high level of knowledge, skill and enthusiasm.

Collaboration with industry

The University of Lincoln's pioneering approach to industry engagement has been widely celebrated. The University has previously won national accolades for its approach to working with industry, including a Lord Stafford Award and Times Higher Education Award, and was cited in recent reports by Sir Andrew Witty and Sir Tim Wilson on university-industry collaboration.

Lincoln is one of only 16 universities around the world to hold Siemens Global Principal Partner status. The Research and Development Framework pioneered by the University and Siemens provides an innovative approach to collaboration on producing new technologies and is now being rolled out to other partners. In September 2016, visiting the University to open its Engineering Hub extension, the Chief Executive of Siemens UK, Juergen Maier, said: "It is truly remarkable what has been accomplished here, in terms of training excellence, research and development, and academic achievement. Lincoln is a

Public benefit: The University as a charity for the year ended 31 July 2017

very special place for engineering because while everyone else is talking about the development of industrial strategy in the UK, when you come here you can actually see it in action. It is happening right here in Lincoln.”

Lincoln was among seven universities which officially joined forces in October 2016 to form Midlands Enterprise Universities (MEU), a pioneering new partnership to provide a powerful economic resource for the Midlands Engine, supporting jobs and wealth creation in the region. The partnership brings the institutions together to create a unique pool of skills, research, expertise and facilities, which will be made available to businesses and local authorities to create jobs, boost economic growth and plug skills gaps across the East and West Midlands. Prime Minister Theresa May pledged her support for the Midlands Engine, setting her sights on maximising the benefits of the region’s location at the heart of the country; and Vice Chancellor Professor Mary Stuart has emphasised the University of Lincoln’s commitment to the Midlands Engine, driving economic growth in the region through education, innovation and investment.

In June 2017 the University of Lincoln won a national commendation for the way it connects academic expertise with the needs of industry and society. Lincoln was one of only eight universities across the country commended by the Higher Education Funding Council for England for its strategic approach to knowledge exchange (other institutions to receive commendations included the University of Oxford, Imperial College and the Institute of Cancer Research). Knowledge exchange covers activities that link universities’ teaching and research with outside organisations, such as small businesses, local authorities or charities, in ways that benefit the economy or society. Examples cited in the University of Lincoln’s report included the recent creation of new academic schools of engineering, chemistry, pharmacy, and mathematics and physics to address regional skills gaps identified with employers, and the emergence of research specialisms in health and agri-food.

School Engagement

In July 2017, a children’s book, written by the University’s Director of Communication, Development and Marketing, which encourages primary school pupils across Lincolnshire to aim high in their ambitions, won a commendation at the national education awards HEIST.

Free copies of the book were sent to almost 300 primary schools across the region for Early Years and Year 1 classes in the 2016/17 school year. A competition was also launched for children of other age groups to claim their free copy by sending in stories and pictures about what they want to be when they were older. The first print run of 10,000 books quickly ran out and a further batch of the same size was ordered to meet demand.

As a core part of its mission to support education in Lincolnshire, the Lincolnshire Educational Trust Limited (LET) was incorporated in August 2014 with the University of Lincoln as its principal sponsor. LET is a multi-academy trust with a two-fold mission. First, it seeks to develop academies that are schools of first choice through their educational excellence. Second, by enhancing life chances for young people through development in academic, cultural and sporting achievements and personal development, it seeks to ensure that they become confident, life-long learners. LET currently comprises three academies: University Academy Holbeach (a secondary modern school), Holbeach Primary Academy (a primary school), and Gosberton House Academy (a specialist primary school, mainly for children with an Autistic Spectrum Disorder). LET has a clear philosophy that education should be enjoyable, enabling young people to develop the skills, knowledge and desire to become life-long learners. LET believes in empowering its Principals to lead their academies with a focus on pupil progress and within a framework of rigorous accountability. Pupils at LET’s academies consistently achieve results above the Lincolnshire and national averages.

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). For the academic year 2016/17, the standard fee for all new full-time undergraduate UK/EU students was set at £9,000, 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 2016/17, 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 2016/17 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 Earl of Yarborough Scholarship for Chemistry, 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, advice, financial support, sports and exercise facilities, health 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 2016/17, 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 year to any Governor for services provided to the University. Note 7 to these financial statements summarises 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 2017

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. Conscious of the need for succession planning and refreshment of its membership, the Board undertook a search for new members during the past year and appointed two new Governors, bringing fresh talent to the governance of the University. More information about the Board and its Members can be found at: <http://lincoln.ac.uk/home/abouttheuniversity/governance/>.

Responsibilities of the Board of Governors

The HEFCE Memorandum of Assurance and Accountability emphasises the governing body's "ultimate responsibility that cannot be delegated for overseeing the HEI's activities, to determine its future direction, and to foster an environment in which the HEI's mission is achieved". 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, including 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 confident that the University's governance structures and procedures fulfil the Seven Primary Elements set out in the Code.

Between 1 August 2016 and 31 July 2017, the Board of Governors met on eight occasions. It also held a Strategy Day, together with the Senior Management Team, focusing on Governors' constitutional responsibility for determining the educational character and mission of the University; and on the ambition to develop a medical school in Lincoln. The Board also has sub-committees and task-and-finish groups. The Nominations Committee met twice during 2016/17, and made recommendations to the Board about the appointment and reappointment of Members of the Board and its committees. The Remuneration Committee, whose responsibilities include reviewing the performance and determining the remuneration of the most senior staff, including the Vice Chancellor, met on two occasions, considering and approving senior staff reward and paying special attention to developments affecting staff pension arrangements. 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 auditor's 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 on two occasions during 2016/17. The Board also established a Financial Sustainability Working Group, which met twice during the year.

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

Statement of corporate governance and internal control for the year ended 31 July 2017

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 in June 2017 presided over by the Chancellor, Lord Adebowale of Thornes CBE.

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 business, operational, reputational and compliance risk as well as financial risk. 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 2016 to 31 July 2017 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 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 Business Intelligence (the department with lead responsibility for risk management), following review and re-scoring of the HLRR by the Senior Leadership Team in November 2016 and July and November 2017. 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 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 SMT 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 commended these six-monthly reviews as assurance that the Executive was 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 certain entries on the high level risk register, and how the major risks are being managed and mitigated. During the year, the Committee paid special attention to the University's cyber security approach and safeguards, and

Statement of corporate governance and internal control for the year ended 31 July 2017

received briefings from the Director of ICT. The Director of Human Resources also attended a meeting to talk about Financial Controls relating to payroll.

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 auditor's annual report. The Audit Committee considers each year at least one report on risk management by the internal auditors. In October 2016, the Committee discussed KPMG's internal audit report, which confirmed that 'the system of internal control, risk management and governance provides significant assurance'. KPMG were pleased to note that they had not identified any areas for improvement, and stated that 'there is significant buy in to the risk management process at a local level, and risk management is embedded within the University's procedures to such a degree that it is seen as an important part of the University's procedures. We note that the University's central risk management process is mature and well designed to manage the University's risk'. The Audit Committee commended the Executive and staff of the institution for achieving these high standards.

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 2016 and July and November 2017; with a report on 'Brexit – risks and opportunities' made to the September 2016 meeting. 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 2017

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; and
- 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 Governors 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, 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) 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; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

The key elements of the University's system of internal 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; and
- a professional Internal Audit team operating to standards defined in the HEFCE 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.

Independent auditor's report to the Board of Governors of the University of Lincoln for the year ended 31 July 2017

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

Opinion

We have audited the financial statements of the University of Lincoln ("the University") and its subsidiaries ("the Group") for the year ended 31 July 2017 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 2017 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 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 Progress Report, Statement of Corporate Governance and Internal Controls and the Financial Results Commentary 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 Higher Education Funding Council for England ("HEFCE") Audit Code of Practice

In our opinion, in all material respects:

- Funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation;
- Funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and
- The requirements of HEFCE's Accounts Direction have been met.

Responsibilities of the governors

As explained more fully in the governors' responsibilities statement set out on page 32, 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

This report is made solely to the University board, 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 board members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Memorandum of Assurance and Accountability with the Higher Education Funding Council for England.

Kyla Bellingall (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
Birmingham

Date:

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 2017

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 2017. The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of income and expenditure from the date of acquisition or 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.

Joint ventures 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.

Statement of accounting policies

For the year ended 31 July 2017

- 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

In determining the valuation of defined benefit pension plans 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.

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 Second State 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.

(b) 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.

(c) 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.

(d) 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.

(e) 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.

Statement of accounting policies

For the year ended 31 July 2017

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.

(f) 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.

(g) 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 a result of the dispute the University considers the asset to be encumbered and has written the carrying value down. It is possible that a settlement will be achieved for a lesser amount which could result in a release of between £nil and £3m. However significant uncertainty exists at this time as to the final outcome.

Accounting for retirement benefits

The three principal pension schemes for the University's staff are the Universities Superannuation Scheme (USS), the Teachers Pension Scheme (TPS) and the East Riding Pension Fund (ERPF). All schemes are defined benefit schemes which are contracted out of the State Second Pension (S2P).

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.

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.

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.

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.

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

Statement of accounting policies

For the year ended 31 July 2017

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.

(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 brought into 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.

Statement of accounting policies

For the year ended 31 July 2017

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

Statement of accounting policies

For the year ended 31 July 2017

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 2017

	Note	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Income					
Tuition fees and education contracts	1	106,133	106,133	101,193	101,193
Funding body grants	2	13,561	13,561	17,629	17,629
Research grants and contracts	3	8,633	8,633	6,275	6,275
Other income	4	12,987	12,557	13,051	12,664
Investment income	5	1,610	1,610	356	355
Total income before endowments and donations		142,924	142,494	138,504	138,116
Donations and endowments	6	186	186	123	123
Total Income		143,110	142,680	138,627	138,239
Expenditure					
Staff costs	7	77,621	77,621	69,480	69,480
Other operating expenses	9	49,949	49,727	44,788	44,504
Depreciation and impairment	11	8,420	8,420	7,595	7,595
Interest and other finance costs	8	4,582	4,582	9,035	9,035
Total expenditure		140,572	140,350	130,898	130,614
Surplus before other gains/(losses) and share of deficit of joint ventures and associates		2,538	2,330	7,729	7,625
Share of operating deficit in joint venture	14	(79)	-	(22)	-
Surplus before tax		2,459	2,330	7,707	7,625
Taxation	10	(157)	(157)	-	-
Surplus for the year		2,302	2,173	7,707	7,625
Change in fair value of investment property	12	1,340	1,340	(878)	(878)
Actuarial gain/(loss) in respect of pension	27	4,305	4,305	(8,102)	(8,102)
Gift Aid received		-	120	-	104
Total comprehensive income for the year		7,947	7,938	(1,273)	(1,251)
Represented by:					
Endowment comprehensive income for the year		156	156	90	90
Unrestricted comprehensive income for the year		7,791	7,782	(1,363)	(1,341)
		7,947	7,938	(1,273)	(1,251)
Surplus for the year attributable to:					
University		2,302	2,173	7,707	7,625
Total Comprehensive income for the year attributable to:					
University		7,947	7,938	(1,273)	(1,251)

All items of income and expenditure relate to continuing activities.

Consolidated and University statement of changes in reserves for the year ended 31 July 2017

Consolidated	Income and expenditure account			Total Reserves £000
	Endowment £000	Restricted £000	Unrestricted £000	
Balance at 31 July 2015 - Restated	132	-	149,572	149,704
Surplus/(deficit) from income and expenditure statement	90	-	(1,363)	(1,273)
Total comprehensive income for the year	90	-	(1,363)	(1,273)
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

University	Income and expenditure account			Total Reserves £000
	Endowment £000	Restricted £000	Unrestricted £000	
Balance at 31 July 2015 – Restated	132	-	149,534	149,666
Surplus from income and expenditure statement	90	-	(1,341)	(1,251)
Total comprehensive income for the year	90	-	(1,341)	(1,251)
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

Consolidated and University balance sheets as at 31 July 2017

	Note	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Non-current assets					
Fixed assets	11	282,775	282,775	238,260	238,260
Investment property	12	1,630	1,630	4,790	4,790
Investments	13	40	239	40	328
Investment in joint venture	14	24	-	102	-
		<u>284,469</u>	<u>284,644</u>	<u>243,192</u>	<u>243,378</u>
Current assets					
Stock	15	114	114	292	100
Trade and other receivables	16	13,338	13,475	11,630	11,691
Investments	17/18	4,000	4,000	20,000	20,000
Cash and cash equivalents	24/18	30,776	30,408	23,688	23,582
		<u>48,228</u>	<u>47,997</u>	<u>55,610</u>	<u>55,373</u>
Creditors: amounts falling due within one year	19	(35,446)	(35,415)	(33,215)	(33,180)
		<u>12,782</u>	<u>12,582</u>	<u>22,395</u>	<u>22,193</u>
Net current assets					
		<u>297,251</u>	<u>297,226</u>	<u>265,587</u>	<u>265,571</u>
Total assets less current liabilities					
Creditors: amounts falling due after more than one year	20	(95,434)	(95,434)	(68,946)	(68,946)
Provisions					
Pension provisions	21	(44,854)	(44,854)	(47,625)	(47,625)
Other provisions	21	(585)	(585)	(585)	(585)
		<u>156,378</u>	<u>156,353</u>	<u>148,431</u>	<u>148,415</u>
Total net assets					
Restricted Reserves					
Income and expenditure reserve – endowment	23	378	378	222	222
Unrestricted Reserves					
Income and expenditure reserve – unrestricted		156,000	155,975	148,209	148,193
		<u>156,378</u>	<u>156,353</u>	<u>148,431</u>	<u>148,415</u>
Total Reserves					

The financial statements were approved by the Board of Governors on 30 November 2017 and signed on its behalf on that date by:

H Biddle – Chair of the Board

Professor M Stuart – Vice Chancellor

Consolidated cash flow statement for the year ended 31 July 2017

	Note	2017 Consolidated £000	2016 Consolidated £000
Cash flow from operating activities			
Surplus for the year		2,302	7,707
Adjustment for non-cash items			
Depreciation	11	8,388	7,595
Other amounts written off fixed assets		32	-
Decrease in stock	11	178	3
Increase in debtors		(1,758)	(1,524)
Increase in creditors		6,403	1,218
Increase in pension provision	21	1,534	940
Decrease increase in other provisions	21	-	(722)
Share of operating deficit in joint venture	14	79	22
Adjustment for investing or financing activities			
Investment income	5	(313)	(356)
Interest payable	8	3,358	2,738
Change in fair value of loan commitments	5/8	(1,225)	4,866
Amortisation of derivative asset	8	45	29
Amortisation of derivative liability	5	(64)	-
Endowment income	6	(186)	(115)
Capital grant income	2	(1,700)	(5,965)
Net cash inflow from operating activities		17,073	16,436
Cash flows from investing activities			
Proceeds on sale of fixed assets		4,470	-
Capital grant receipts		1,700	6,136
Investment income		365	323
Payments made to acquire fixed assets		(54,829)	(23,396)
Payments made to acquire investment properties		-	(1,319)
Payments made to acquire joint ventures		-	(113)
Decrease/(increase) on short term deposits		16,000	(10,000)
Net cash outflow from investing activities		(32,294)	(28,369)
Cash flows from financing activities			
Interest paid		(3,303)	(2,700)
Endowment cash received		186	115
New secured loans		-	600
New unsecured loans		28,000	20,000
Repayments of amounts borrowed		(2,574)	(2,459)
Net cash inflow from financing activities		22,309	15,556
(Decrease)/increase in cash and cash equivalents in the year		7,088	3,623
Cash and cash equivalents at beginning of the year	24/18	23,688	20,065
Cash and cash equivalents at the end of the year	24/18	30,776	23,688

Notes to the financial statements year ended 31 July 2017

1 Tuition fees and education contracts

	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Full-time home and EU students	88,476	88,476	82,044	82,044
Full-time international students	12,307	12,307	12,333	12,333
Part-time students	4,444	4,444	5,983	5,983
Short courses and summer schools	500	500	477	477
Further education students	406	406	356	356
	106,133	106,133	101,193	101,193

2 Funding body grants

Recurrent grants

Higher Education Funding Council for England (HEFCE)	10,353	10,353	9,978	9,978
Skills Funding Agency (SFA)	782	782	801	801

Specific grants

HEFCE – Higher Education Innovation Fund	726	726	667	667
HEFCE – other specific grants	-	-	218	218
HEFCE – capital grants	1,700	1,700	5,965	5,965
	13,561	13,561	17,629	17,629

3 Research grants and contracts

Research Councils	949	949	982	982
UK based charities	1,653	1,653	1,358	1,358
UK Central/Local Government/Health/Hospitals	3,049	3,049	1,841	1,841
Industry and commerce	727	727	794	794
European Union	2,131	2,131	1,260	1,260
Overseas	124	124	40	40
	8,633	8,633	6,275	6,275

4 Other income

Residences, catering and conferences	6,716	6,716	6,303	6,303
Other income generating activities	6,271	5,841	6,748	6,361
	12,987	12,557	13,051	12,664

5 Investment income

Income from short term deposits	321	321	356	355
Amortisation of derivative liability	64	64		
Change in fair value of loan commitments	1,225	1,225	-	-
	1,610	1,610	356	355

6 Donations and endowments

New endowments	164	164	115	115
Unrestricted donations	22	22	8	8
	186	186	123	123

Notes to the financial statements year ended 31 July 2017

7 Staff costs	2017	2017	2016	2016
	Consolidated	University	Consolidated	University
	£000	£000	£000	£000
Salaries	59,424	59,424	54,413	54,413
Social Security costs	6,046	6,046	4,805	4,805
Movement on USS provision	(148)	(148)	237	237
Other pension costs	11,746	11,746	9,722	9,722
Staff restructuring costs	553	553	303	303
	<u>77,621</u>	<u>77,621</u>	<u>69,480</u>	<u>69,480</u>

	2017	2016
	Consolidated	Consolidated
	£000	£000
Emoluments of the Vice-Chancellor:		
Salary	251	243
Benefits	2	2
Payments in lieu of pension contributions	38	13
Pension contributions to USS	-	26
	<u>291</u>	<u>284</u>

The prior year comparative amount has been reanalysed to separately identify payments in lieu of pension contributions.

Remuneration of other higher paid staff, excluding employer's pension contributions:	2017	2016
	Number	Number
£100,000 to £109,999	-	1
£110,000 to £119,999	3	2
£120,000 to £129,999	3	5
£130,000 to £139,999	1	1
£140,000 to £149,999	1	-
£150,000 to £159,999	1	1
£160,000 to £169,999	-	-
£170,000 to £179,999	-	1
	<u>-</u>	<u>1</u>

Average staff numbers by major category:	Number	Number
Teaching departments	1,090	978
Teaching support services	142	141
Other support services	66	60
Administration and central services	244	231
Premises	34	36
	<u>1,576</u>	<u>1,446</u>

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.

	2017	2016
	Consolidated	Consolidated
	£000	£000
Key management personnel compensation	<u>2,011</u>	<u>2,069</u>

The prior year comparative amount has been adjusted to include employers' national insurance.

7 Staff costs (cont.)

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 £23,460 relating to clinical scholarship awards and secondments with University of Nottingham, where Professor S Bailey is Professor of Public Law.
- Transactions totalling £13,637 relating to subscriptions with the Equality Challenge Unit, where Professor M Stuart is a Board Member.
- Transactions totalling £290,755 relating to apprenticeships and grants with the University Academy Holbeach, where Professor M Stuart is a Governor.
- Transactions totalling £1,460,076 relating to block grant and rental charges with the University of Lincoln Students' Union, where Mr K Muzangaza is president.
- Transactions totalling £25,263 relating to website development services with Epix Media Limited, where Ms Z Easey is Director.
- Transactions totalling £865,356 relating to rental charges, equipment and supporting activity with Siemens Industrial Turbomachinery Ltd, where Mr N Corner is the Managing Director.
- Transactions totalling £378,620 relating to salary payments with Lincolnshire Bomber Command, where Professor M Stuart is a trustee.
- Transactions totalling £771,850 relating to rental charges with Lincoln Science and Innovation Park, where Mr H Biddle is a director.

No member of the Board of Governor's has received any remuneration or waived payments from the group during the year (2016: £nil).

The total expenses paid to nine members of the Board of Governors was £8,000 (2016: £6,000 to 10 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

	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Loan interest	3,358	3,358	2,738	2,738
Change in fair value of loan commitments	-	-	4,866	4,866
Amortisation of derivative asset	45	45	29	29
Net charge on pension scheme	1,138	1,138	1,338	1,338
Unwinding of discounts on pension provisions	41	41	64	64
	4,582	4,582	9,035	9,035

Notes to the financial statements year ended 31 July 2017

9 Analysis of total expenditure by activity

	2017 Consolidate £000	2017 University £000	2016 Consolidated £000	2016 University £000
Academic departments	62,681	62,681	57,010	57,010
Academic services	15,590	15,590	15,153	15,153
Administration and central services	26,894	26,894	27,616	27,616
Premises	20,389	20,389	18,023	18,023
Residences and catering operations	5,721	5,721	6,366	6,366
Research grants and contracts	7,222	7,222	5,606	5,606
Other expenditure	2,075	1,853	1,124	840
	<u>140,572</u>	<u>140,350</u>	<u>130,898</u>	<u>130,614</u>

Other operating expenses include:

External auditors remuneration in respect of:

Audit services	50	50	53	50
Non-audit services	-	-	22	22
Operating lease rentals:				
Land and buildings	1,116	1,116	1,270	1,270
Other	149	149	149	149

10 Taxation

	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Recognised in the statement of comprehensive income				
Current tax				
Current tax expense	-	-	-	-
Taxation on RDEC Income	157	157	-	-
Adjustment in respect of previous years	-	-	-	-
Current tax expense	<u>157</u>	<u>157</u>	-	-
Deferred tax				
Origination and reversal of timing differences	-	-	-	-
Reduction in tax rate	-	-	-	-
Recognition of previously unrecognised tax losses	-	-	-	-
Deferred tax expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total tax expense	<u>157</u>	<u>157</u>	<u>-</u>	<u>-</u>

Notes to the financial statements year ended 31 July 2017

11 Fixed assets	Assets in the course of construction	Freehold land and buildings	Leasehold land and buildings	Fixtures, fittings and equipment	Total
Consolidated and University	£000	£000	£000	£000	£000
Cost					
At 1 August 2016	22,793	183,970	33,881	16,528	257,172
Opening adjustments	-	422	-	-	421
Additions	51,048	-	-	2,071	53,119
Transfers	(43,533)	39,213	1,094	3,225	-
Disposals and written off	(183)	-	-	(980)	(1,163)
As at 31 July 2017	30,125	223,605	34,975	20,844	309,549
Depreciation					
At 1 August 2016	-	8,102	3,027	7,783	18,912
Opening Adjustments	-	422	-	-	422
Charge for the year	-	3,549	1,708	3,131	8,388
Reversal of diminution of value	-	(663)	-	-	(663)
Impairment	-	695	-	-	695
Disposals and written off	-	-	-	(980)	(980)
At 31 July 2017	-	12,105	4,735	9,934	26,774
Net book value					
At 31 July 2017	30,125	211,500	30,240	10,910	282,775
At 31 July 2016	22,793	175,868	30,854	8,745	238,260

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 2017, freehold land and buildings included £21,476,000 (2016: £21,476,000) in respect of freehold land which is not depreciated.

12 Investment property

Consolidated and University	Investment Property
	£000
Fair value	
At 1 August 2016	4,790
Net gain recognised in Consolidated Statement of Comprehensive Income and Expenditure	1,340
Disposals	(4,500)
As at 31 July 2017	1,630

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 (EUUV) basis, with the market value considered to be equal to the EUUV for all investment properties.

Notes to the financial statements year ended 31 July 2017

13 Non-current investments

Consolidated

At 1 August 2016 and 31 July 2017

Other non-current investments
£000

40

University	Subsidiary companies £000	Investment in jointly controlled entity £000	Other non-current investments £000	Total £000
At 1 August 2016	175	113	40	328
Share of deficit in joint venture	-	(89)	-	(89)
At 31 July 2017	175	24	40	239

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 2017 were £1 (31 July 2016: £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.

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 13).

Other non-current investments consist of:

	2017 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.

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.

Notes to the financial statements year ended 31 July 2017

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:

	2017 £000	2016 £000
Income and expenditure account		
Income	166	158
Operating loss	(79)	(22)
Balance sheet		
Fixed assets	2,815	2,411
Current assets	14	38
	2,829	2,449
Creditors: amounts falling due within one year	(24)	(28)
Creditors: amounts falling due after more than one year	(2,781)	(2,319)
Share of net assets	24	102

15 Stock

	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Goods for resale	51	51	46	46
Raw materials and consumables	63	63	245	54
Work in progress	-	-	1	-
	114	114	292	100

16 Trade and other receivables

	2017 Consolidated £000	2017 University £000	2016 Consolidated £000	2016 University £000
Amounts falling due within one year:				
Research grants receivable	2,482	2,482	1,945	1,945
Other trade receivables	4,791	4,786	4,266	4,260
Other receivables	1,164	1,163	529	529
Prepayments and accrued income	4,432	4,429	4,197	4,176
Amounts due from subsidiary companies	-	146	-	88
	12,869	13,006	10,937	10,998
Amounts falling due after more than one year:				
Other receivables	347	347	302	302
Prepayments and accrued income	122	122	391	391
	13,338	13,475	11,630	11,691

Notes to the financial statements year ended 31 July 2017

17 Current asset investments	2017	2017	2016	2016
	Consolidated	University	Consolidated	University
	£000	£000	£000	£000
Short term deposits	4,000	4,000	20,000	20,000

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

At 31 July 2017 the weighted average interest rate of these fixed rate deposits was 1.25% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 34 days. The fair value of these deposits was not materially different from the book value.

18 Prior Year Adjustment

Prior year comparatives have been adjusted to reallocate an amount of £15,075,000 from 'Investments' within current assets to 'Cash and cash equivalents' following a review of the terms of one of the University's bank deposit accounts.

19 Creditors: amounts falling due within one year	2017	2017	2016	2016
	Consolidated	University	Consolidated	University
	£000	£000	£000	£000
Secured loans	1,923	1,923	1,824	1,824
Unsecured loans	750	750	750	750
Derivative financial liability	-	-	2,649	2,649
Unamortised loan commitment liability/(asset)	64	64	(59)	(59)
Trade payables	6,600	6,599	6,467	6,434
Other payables	3,534	3,534	3,876	3,876
Social security and other taxation payable	1,701	1,700	1,488	1,503
Accruals and deferred income	20,874	20,845	16,220	16,203
	35,446	35,415	33,215	33,180

As at the prior year end, the derivative financial liability represented the fair value at the balance date of loan commitments where the interest rate had been fixed prior to draw down, calculated using estimated interest rates that could have been obtained for the same loans at the balance sheet date. The loans are were drawn down in full by 31 July 2017. The fair value of the asset or liability at draw down is amortised over the life of the related loan (note 19).

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:

	2017	2017	2016	2016
	Consolidated	University	Consolidated	University
	£000	£000	£000	£000
Research grants received on account	2,428	2,428	2,002	2,002
Grant income	-	-	258	258
Other income	3,273	3,273	3,797	3,797
	5,701	5,701	6,057	6,057

Notes to the financial statements year ended 31 July 2017

20 Creditors : amounts falling due after more than one year	2017	2017	2016	2016
	Consolidated	University	Consolidated	University
	£000	£000	£000	£000
Secured loans	33,678	33,678	35,601	35,601
Unsecured loans	60,375	60,375	33,125	33,125
Unamortised loan commitment liability/(asset) (note 18)	874	874	(408)	(408)
Accruals and deferred income	507	507	628	628
	<u>95,434</u>	<u>95,434</u>	<u>68,946</u>	<u>68,946</u>

Secured and unsecured loans are repayable as follows:

Due within one year on demand	2,673	2,673	2,574	2,574
Due between one and two years	3,122	3,122	2,673	2,673
Due between two and five years	13,909	13,909	10,429	10,429
Due in five years or more	77,022	77,022	55,624	55,624
	<u>96,726</u>	<u>96,726</u>	<u>71,300</u>	<u>71,300</u>
Due within one year or on demand	(2,673)	(2,673)	(2,574)	(2,574)
Due after more than one year	<u>94,053</u>	<u>94,053</u>	<u>68,726</u>	<u>68,726</u>

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

Lender	Amount	Term	Interest Rate	Borrower
	£000		%	
Dexia	5,209	2023	5.08	University
Dexia	4,336	2028	5.38	University
Santander	13,125	2035	5.00	University
Royal Bank of Scotland	22,880	2037	4.69	University
Royal Bank of Scotland	3,176	2037	3.40	University
European Investment Bank	20,000	2041	2.37	University
European Investment Bank	14,000	2041	2.45	University
European Investment Bank	14,000	2042	2.48	University
Total borrowings	<u>96,726</u>			

Included in the total borrowings balance of £96,726,000 (2016: £71,300,000), is £96,726,000 (2016: £69,631,000) held at amortised cost. The balance of £nil (2016: £1,669,000) is held at fair value as the loans are non-basic.

21 Provisions for liabilities	Obligation to fund deficit on USS pension	Defined benefit obligations	Total pension provisions	Onerous contracts and other	Total other
	£000	£000	£000	£000	£000
Consolidated and University					
As at 1 August 2016	2,353	45,272	47,625	585	585
Utilised in year	(148)	(5,790)	(5,938)	-	-
Net pension charge	(30)	7,461	7,431	-	-
Actuarial loss on ERPF	-	(4,305)	(4,305)	-	-
Unwinding of USS discount	41	-	41	-	-
As at 31 July 2017	<u>2,216</u>	<u>42,638</u>	<u>44,854</u>	<u>585</u>	<u>585</u>

Notes to the financial statements year ended 31 July 2017

21 Provisions for liabilities (cont.)

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.

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 mainly relates to the estimated liabilities in respect of onerous contractual obligations arising from certain operating leases. This estimated liability is due to be settled within one year from the balance sheet date.

22 Financial Instruments

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

Financial Assets	Note	2017	2017	2016	2016
		Consolidated £000	University £000	Consolidated £000	University £000
Debt instruments measured at amortised cost					
Long-term loans receivable		385	385	471	471
Measured at undiscounted amount receivable					
Trade and other receivables		10,492	10,629	8,736	8,794
Equity instruments measured at cost less impairment					
Non-current asset investments in unlisted equity instruments	12	40	40	40	40
		<u>10,917</u>	<u>11,054</u>	<u>9,247</u>	<u>9,305</u>
Financial Liabilities					
Measured at fair value through income and expenditure					
Derivative financial liabilities		-	-	2,649	2,649
Unamortised loan commitment liabilities/(assets)	18,19	938	938	(467)	(467)
Measured at amortised cost					
Loans payable	18,19	96,726	96,726	71,300	71,300
Measured at undiscounted amount payable					
Trade and other creditors		24,882	24,846	22,564	22,529
		<u>122,546</u>	<u>122,510</u>	<u>96,046</u>	<u>96,011</u>
Interest income and expense					
Total interest income for financial assets at amortised cost	5	385	385	356	355
Total interest expense for financial assets at amortised cost	8	(3,358)	(3,358)	(2,738)	(2,738)
		<u>(2,973)</u>	<u>(2,973)</u>	<u>(2,382)</u>	<u>(2,383)</u>

Notes to the financial statements year ended 31 July 2017

23 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 2017 £000	Total 2016 £000
Balances at 1 August					
Capital	-	-	222	222	132
Accumulated income	-	-	-	-	-
	-	-	222	222	132
New endowments	-	-	186	186	115
Expenditure	-	-	(30)	(30)	(25)
	-	-	156	156	90
Increase in market value of investments	-	-	-	-	-
At 31 July	-	-	378	378	222
Represented by:					
Capital	-	-	378	378	222
Accumulated income	-	-	-	-	-
	-	-	378	378	222
Analysis by type of purpose:					
Scholarships and bursaries	-	-	59	59	51
Research support	-	-	235	235	89
Prize funds	-	-	84	84	82
	-	-	378	378	222
Analysis by asset:					
Current and non-current asset investments	-	-	-	-	-
Cash and cash equivalents	-	-	378	378	222
	-	-	378	378	222

24 Cash and equivalents

Consolidated	At 1 August 2016 £000	Cash Flows £000	At 31 July 2017 £000
Cash and cash equivalents	23,688	7,088	30,776

25 Capital and other commitments

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

Consolidated and University	2017 £000	2016 £000
Commitments contracted for	4,623	46,706
Authorised but not contracted for	9,220	18,153
	13,843	64,859

Notes to the financial statements year ended 31 July 2017

26 Lease obligations

Total rentals payable under operating leases:

	Land and Buildings	Other	Total 2017	Total 2016
Consolidated and University	£000	£000	£000	£000
Payable during the year	1,116	-	1,116	1,419
Future minimum lease payments due:				
Not later than 1 year	1,116	-	1,116	1,336
Later than 1 year and not later than 5 years	4,287	-	4,287	4,582
Later than 5 years	15,045	-	15,045	21,803
Total lease payments due	20,448	-	20,448	27,721

27 Pension schemes

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

	2017	2016
	£000	£000
ERPF including FRS102 adjustments	6,323	4,776
TPS contributions payable	4,221	3,926
USS contributions (excluding provision movements)	1,202	1,020
Total pension cost	11,746	9,722

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 2017 was £7,043,000 of which employers' contribution totalled £5,654,000 and employees' contributions totalled £1,389,000. The employer's contribution rate was 28.1% to March 2017 and 25.3% from April 2017. 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 2017 (2016: £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 2017 on an FRS102 basis by a qualified independent actuary.

Notes to the financial statements year ended 31 July 2017

27 Pension schemes (cont.)

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

	2017	2016
	%	%
Price Inflation (RPI)	3.4	2.9
Price Inflation (CPI)	2.4	1.9
Rate of increase of salaries	2.7	2.9
Rate of increase of pensions in payment for ERPF members	2.5	1.9
Discount rate	2.7	2.5

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:

	2017	2016
<i>Current pensioners</i>		
Males	21.7	21.9
Females	24.2	24.1
<i>Future pensioners (currently aged 45)</i>		
Males	23.7	24.2
Females	26.4	26.7

Scheme assets

The fair value of the assets in the ERPF were:

Fair value of assets	2017	2016	2015
	£000	£000	£000
Equities	96,835	82,369	71,795
Bonds	12,741	12,081	9,447
Property	14,016	12,081	9,447
Cash	3,822	3,295	3,779
Total fair value of assets	127,414	109,826	94,468

Notes to the financial statements year ended 31 July 2017

27 Pension schemes (cont.)

The following amounts at 31 July 2017 were measured in accordance with the requirements of FRS102.

Analysis of the amount shown in the balance sheet for ERPF and ex-gratia pensions	2017	2016			
	£000	£000			
Scheme assets	127,414	109,826			
Scheme liabilities	(170,052)	(155,098)			
Deficit in the scheme – net pension liability recorded within pension provisions (Note 20)	(42,638)	(45,272)			
Analysis of the amount charged to staff costs within operating surplus					
Current service cost	6,223	4,776			
Past service cost	100	-			
	6,323	4,776			
Analysis of the amount charged to interest and other finance costs					
Interest income on plan assets	(2,796)	(3,570)			
Interest cost on defined benefit obligation	3,934	4,908			
Interest on net deficit	1,138	1,338			
Analysis of other comprehensive income for ERPF and ex-gratia pensions					
Remeasurements					
- Changes in demographic assumptions	3,302	-			
- Changes in financial assumptions	(9,687)	(17,782)			
- Other experience	117	1,989			
- Return on assets excluding amounts included in net interest	10,573	7,691			
Actuarial gain/(loss)	4,305	(8,102)			
History of experience gains and losses for ERPF and ex-gratia pensions					
Difference between the expected and actual return on assets:	2017	2016	2015	2014	2013
Amount (£000)	10,573	7,691	2,906	(342)	8,558
% of assets at end of year	8.3%	7.0%	3.1%	0.4%	11.1%
Experience gains/(losses) on scheme liabilities:					
Amount (£000)	117	1,989	1,029	1,864	40
% of scheme liabilities at end of	0.1%	1.3%	0.8%	1.6%	0.0%
Cumulative actuarial loss recognised as other comprehensive income for ERPF and ex-gratia pensions	2017	2016			
	£000	£000			
Cumulative actuarial losses recognised at the start of the year	26,422	18,320			
Cumulative actuarial losses recognised at the end of the year	22,117	26,422			
Analysis of movement in deficit for ERPF and ex-gratia pensions:					
Deficit at beginning of year	(45,272)	(36,445)			
Contributions or benefits paid by the University	5,790	5,389			
Current service cost	(6,323)	(4,776)			
Other finance charge	(1,138)	(1,338)			
Gain/(loss) recognised in other comprehensive income	4,305	(8,102)			
	(42,638)	(45,272)			

Notes to the financial statements year ended 31 July 2017

27 Pension schemes (cont.)

Analysis of movement in the present value of ERPF and ex-gratia liabilities	2017	2016
	£000	£000
Present value of ERPF and ex-gratia liabilities at the start of the year	155,098	130,913
Current service cost	6,323	4,776
Interest cost	3,934	4,908
Actual members contributions	1,389	1,269
Actuarial loss	6,268	15,793
Actual benefit payments	(2,960)	(2,561)
Present value of ERPF and ex-gratia liabilities at the end of the year	<u>170,052</u>	<u>155,098</u>

Analysis of the movement in the fair value of scheme assets

Fair value of assets at start of the year	109,826	94,468
Expected return on assets	2,796	3,570
Actuarial gain on assets	10,573	7,691
Actual contributions paid by University	5,790	5,389
Actual member contributions	1,389	1,269
Actual benefit payments	(2,960)	(2,561)
Fair value of assets at end of the year	<u>127,414</u>	<u>109,826</u>

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

Actual return on scheme assets	2017	2016
	£000	£000
Expected return on scheme assets	2,796	3,570
Asset gain	10,573	7,691
	<u>13,369</u>	<u>11,261</u>

Estimated University contributions for ERPF for the year ended 31 July 2018 are £5,196,000.

Sensitivity Analysis

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

Change in assumptions at 31 July 2017:	Approximate increase to Defined Benefit Obligation	Approximate monetary amount
		£000
0.5% decrease in Real Discount Rate	12%	19,872
0.5% increase in Salary Increase Rate	2%	3,139
0.5% increase in the Pension Increase Rate	10%	16,450

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% (2016: 16.48%) of pensionable salaries. The employees' contribution rate is based on earnings per annum and ranges from 7.4% to 11.7%.

27 Pension schemes (cont.)

FRS 102 Section 28 – Post Employment Benefits

PENSION COSTS

The total cost charged to the profit and loss account is £1,096,000 (2016: £1,321,000).

The latest available full actuarial valuation of the scheme was at 31 March 204 (the valuation date), which was carried out using the projected unit method. The valuation as at 31 March 2017 is underway. Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme 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. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	2017	2016
Discount rate	2.57%	3.6%
Pensionable salary growth	n/a	n/a
Pensions increases (CPI)	2.41%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	98% of S1NA ["light"] YoB tables – No age rating
Female members' mortality	99% of S1NA ["light"] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	2017	2016
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.4
Females currently aged 45 (years)	29.0	28.8

	2017	2016
Scheme assets	£60.0bn	£49.8bn
Total scheme liabilities	£77.5bn	£58.3bn
FRS 102 total scheme deficit	£17.5bn	£8.5bn
FRS 102 total funding level	77%	85%

The governing body and officers 2016/17

The Governors who served in the period from 1 August 2016 were as follows:

Mr H Biddle (Chair)
Professor S Bailey
Dr S Barrow (Staff Member) (until 21 July 2017)
Mr N Corner
Sir G Davies
Ms Z Easey
Professor D French (Staff Member) (from 1 July 2017)
Ms D Gilhespy
Mr N Gray
Mr N Herbert
Ms M Jackson (Deputy Chair)
Ms D Lees CBE
Professor J Ker (from 1 October 2016)
Mr K Muzangaza (Student Member) (from 22 May 2017)
Ms J Reeves
Dr K Savage (Staff Member) (from 1 July 2017)
Ms S Storey (Student Member) (until 4 April 2017)
Professor M Stuart (Vice Chancellor)
Mr R Whetton

Clerk to the Board of Governors: Mr P Walsh

The officers (Senior Leadership Team) who served in the period from 1 August 2016 were as follows:

Professor M Stuart	Vice Chancellor
Professor J S Davidson	Deputy Vice Chancellor (until 31 December 2016)
Mr J Free CBE	Deputy Vice Chancellor (from 1 April 2017)
Professor A Hunter	Deputy Vice Chancellor (from 1 September 2016)
Professor I Owen	Deputy Vice Chancellor (until 31 August 2016)
Mr S Parkes	Deputy Vice Chancellor (from 1 February 2017)
Professor S Rigby	Deputy Vice Chancellor
Professor T Wilkinson	Deputy Vice Chancellor (from 1 April 2017)
Professor M Cragoe	Pro Vice Chancellor
Professor A Hunter	Pro Vice Chancellor (until 31 August 2016)
Professor E John	Pro Vice Chancellor (from 1 January 2017)
Professor C Marsh	Pro Vice Chancellor
Professor S Owen	Pro Vice Chancellor
Mr D Braham	Chief Finance Officer (from 1 January 2017)
Ms H Dowdy	Director of Estates (from 1 April 2017)
Ms D Harry	Chief Finance Officer (until 31 December 2016)
Ms C Low	Director of Planning and Business Intelligence
Mr J Plumridge	Director of Estates and Commercial Facilities (until 11 November 2016)
Ms R Pepper	Director of Human Resources (from 1 April 2017)
Mr C Spendlove	University Registrar

The University's principal advisors were:

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