



**BISHOP
GROSSETESTE
UNIVERSITY**

**FINANCIAL STATEMENTS
FOR THE YEAR ENDED**

31 JULY 2014

CUSTODIAN TRUSTEE: The Lincoln Diocesan Trust and Board of Finance Limited.

CONSTITUTION: The University is a registered charity (number 527276). It is governed by an instrument and articles of government dated 1st October 1998 updated October 2012.

COUNCIL AND ADMINISTERING TRUSTEES:

The Council members who served in the year and up to the date of the signature of the financial statements were:

Mr D Babb ¹
Dr K Brown ¹
The Very Reverend P Buckler ²
Mr J Caress (Resigned July 2014)
Mr D Clements ^{2,3}
Mr R Corn
Mrs A Crowe ^{2,3} (Appointed May 2014)
Mr J Downey (Appointed September 2014)
Mrs S Gratrack ⁴
Dr T Hill ^{3,5}
Professor D Head ⁴ (Appointed May 2014)
Mr S Lawrence ⁴ (Appointed September 2014)
Right Reverend C Lawson, The Bishop of Lincoln
Air Vice-Marshal G Mackay ¹ (Appointed May 2014)
Mr G Meeson ⁴
Mrs H Merrifield (Resigned July 2014)
Professor J Mitchell (Appointed March 2014)
Mr R Mosey (Chair) ^{3,4,5}
Reverend S Myers ²
Reverend Professor P Neil ^{1,4,5}
Mrs J Phull ⁴
Mr C Robertson (Appointed August 2014)
Mr D N Smith ²
Mrs B Starling ²
Professor M Thompson ^{1,3}
Mr J Turner (Resigned July 2014)
Mrs L Wood ¹ (Resigned September 2014)

VICE CHANCELLOR: Reverend Professor Peter Neil ^{1,4,5}

BANKERS: National Westminster Bank plc

PRINCIPAL SOLICITORS: Andrew & Co, St Swithin's Court, 1 Flavian Road, Nettleham Road, Lincoln LN2 4GR

EXTERNAL AUDITORS: Mazars LLP, Park View House, 58 The Ropewalk, Nottingham. NG1 5DW.

INTERNAL AUDITORS: UNIAC, Armstrong House, Oxford Road, Manchester, M1 7ED

Key to membership of committees:

1. Finance, Employment & General Purposes Committee
2. Audit Committee
3. Remuneration Committee
4. Governance & Nominations Committee
5. Selection Committee

Financial statements for the year ended 31 July 2014

Contents

	PAGES
Vice Chancellor's Report	1 - 3
Institutional Governance Statement	4 - 5
Statement of the University Council's Responsibilities	6 - 8
Report of the Independent Auditors	9 - 10
Statement of Principal Accounting Policies	11 - 13
Consolidated Income and Expenditure Account	14
Consolidated Statement of Historical Cost Surpluses and Deficits	15
Consolidated Statement of Total Recognised Gains and Losses	16
Balance Sheets	17
Consolidated Cash Flow Statement	18
Notes to the Financial Statements	19 - 43

Vice Chancellor's Report

Scope of the Financial Statements

The Financial Statements comprise the consolidated results of the University and its subsidiary, BG (Lincoln) Limited. BG (Lincoln) Limited undertakes conference and catering services using the University's facilities.

Results for the Year

The University Consolidated Income, Expenditure and Results for the year to 31 July 2014 are summarised as follows:-

	<u>2013/14</u>	<u>2012/13</u>
	£000	£000
Income	17,232	17,606
Expenditure	(15,251)	(15,203)
	====	====
Surplus after Depreciation of Assets at Valuation and Before Tax	1,981	2,403
	====	====
Surplus after Depreciation of Assets at Valuation, Disposal of Assets and Tax	1,981	2,485
	====	====
Surplus for the Year on an Historical Cost Basis	2,017	2,793
	====	====

The University's total income reduced by 2% compared with the previous year.

Registrations, reported to the HEFCE were 2,054 full-time, and 215 part-time students (2013 =2,025 full-time and 264 part-time).

The retained historical cost surplus for the year was £2,017,000. As a percentage of income this equated to 11.5% which is a performance that exceeded the budget set for the year. Total recognised gains since the last financial statements were £254,000. The University's net asset level is regarded as satisfactory.

Financial Objectives and Strategy

The Financial Strategy is concerned with financing the University's corporate objectives by providing a sound and prudent financial planning and management framework. Within this strategy, a number of main objectives have been identified which are to:

- Maintain the financial health of the University and ensure its long-term viability;
- Generate satisfactory surpluses to maintain productive capacity to meet current objectives on infrastructure capital and revenue expenditure to ensure the sustainability of the University's business;
- Manage and mitigate financial risk, identify opportunities, and ensure value for money in the University's operations; and
- Generate sufficient surpluses to support corporate strategic initiatives.

A series of performance indicators have been agreed to monitor the success of these objectives.

Vice Chancellor's Report (continued)**Performance Indicators**

In order to set and effectively monitor the financial objectives, the University will concentrate on a set of financial ratios and performance. The University will specifically concentrate on the following key performance indicators:

- Historical cost surplus/(deficit) after tax in £000s and as % of total income;
- Net liquidity/days ratio of net liquid assets to total expenditure (current assets: cash at bank and in hand plus investments - minus creditors: amounts falling due within one year: bank overdrafts)/(total expenditure) x 365 days;
- Borrowing as a percentage of income;
- Staff costs as a % of total income.

Employment of Disabled Persons

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing employees becoming disabled every effort is made to ensure that their employment with the University continues and that appropriate training is arranged. It is the policy of the University that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Disability Statement

The University is committed to developing an environment that is inclusive, fair, open and welcoming of individuals from diverse groups. Diversity and equality are recognised, encouraged, promoted and valued at all levels of the University and in all its functions.

Recent years have seen significant alterations to help make the campus buildings more accessible for disabled students and visitors. Improvements are on-going to further improve physical access and provide technologies for dyslexic and visually impaired and deaf students. The University will ensure that every effort is made to meet individuals support needs.

Corporate Governance

In recent years the financial statements have included a statement confirming the University's arrangements for its governance: this year's statement appears on pages 4 to 5. The work which has been undertaken under the Corporate Governance heading in 2013/14 is given in the detailed statement on pages 6 to 8 and reflects a risk based approach to determining the control systems. The University believes that the risk process is embedded and that a full compliance statement is in order for 2013/14.

Payment of Creditors

It is the University's policy to obtain the best terms for all business and, thus, there is no single policy as to the terms used. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms.

Future Developments

During the course of the academic year 2013/14 a number of major developments has come to fruition. Major capital works have continued on BG's estate, the most significant of which is the re-development of our on-site student accommodation with new and refurbished halls of residence offering self-catering accommodation for the first time from September 2013. Moving away from a catered residential offer will have a significant impact on BG's traded services. Commercial activity of this nature was transferred in to the University's trading subsidiary BG (Lincoln) Limited to ensure strong governance arrangements remain in place as this activity grows.

Vice Chancellor's Report (continued)

Throughout the 2013/14 academic year senior management along with staff, students, University council and external stakeholders have been working on a new strategy for the institution. The ambitious strategy, which is being implemented from September 2014 will see the University build on its past success in encouraging and supporting students from non-traditional and low-income backgrounds to gain an HE qualification by offering a greater range of courses and subjects, and strengthening its partnerships with local, regional and national business communities to ensure students are prepared for life and employment in a global society. The plans also set out the investment the University is making in research, its buildings and facilities. The strategy has been developed at a time of challenge within the higher education sector but which also represents a great opportunity for a University such as Bishop Grosseteste. Significant up-front investment is required to support the strategic objectives and this will be evident in the accounts next year. The income from additional student numbers and research will offset this investment in the medium term.

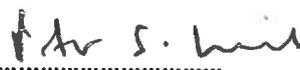
Conclusion

The University continues to live within its income and has maintained strong financial reserves despite major capital investment. This is a position designed to allow the University to respond flexibly to a rapidly changing environment and to continue to invest appropriately in the University's infrastructure.

The University continues to receive due recognition for the quality of its work which will be the key factor in securing its future, growth and development.

The importance of effective and efficient management of resources is understood across the University and the delegation of an increased number of budgets has added to the awareness at middle and junior levels of the need to be accountable and prudent in the use of resources.

The University will continually review its activities in order to assess the future direction of the institution and provide a successful learning experience and environment for future generations.



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Vice Chancellor

19th November 2014

Institutional governance statement**Introduction**

The University is committed to exhibiting best practice in all aspects of corporate governance. This section summarises and explains the arrangements for the governance of the University that applied during the financial year. These arrangements are set out in the University's Instrument and Articles of Government; the terms of reference of committees of the University Council; the University's financial regulations; and such resolutions as the University Council may from time to time adopt. The University's governance arrangements are consistent with good practice and Committee of University Chairs (CUC) code of practice.

Roles and responsibilities

The Articles of Government set out the respective powers and responsibilities of the University Council and the Vice Chancellor. Broadly speaking, the University Council is generally responsible for overseeing the running of the University and specifically for the effective, efficient and economic use of resources, the approval of annual budgets and senior appointments. The Vice Chancellor is responsible for the organisation, direction and management of the University and for making recommendations to the University Council on the matters for which it is responsible.

The Articles empower the University Council to delegate certain of its functions to committees of the University Council or to the Vice Chancellor. The University Council may not delegate responsibility for:

- determining the educational character and mission of the University;
- approving the annual budgets;
- ensuring the solvency of the institution and for safeguarding its assets;
- the appointment or dismissal of the Vice Chancellor;
- varying or revoking the Articles of Government.

The responsibilities of the University Council are considered in more detail in the statement presented on pages 6 to 8.

University Council: constitution

The University Council of the University has 23 members:

- the Bishop of Lincoln;
- the University Vice Chancellor;
- one Deputy Vice Chancellor of the University;
- three persons appointed by the Diocesan Council of Lincoln;
- one member appointed by a higher education institution;
- one elected member of the University Teaching staff;
- one elected member of the University Non-Teaching staff;
- one elected student of the University
- the President of the Students' Union; and
- twelve members co-opted by the University Council.

Council members are appointed for a term of four years with a maximum of two terms of office except for the following; The Deputy Vice Chancellor of the University whose term will be for the duration of their employment; the President of the Students' Union whose term is tied to his or her term of office; the elected student of the University whose term is four years or the duration of his or her programme of study, whichever is the shorter; the Bishop of Lincoln who shall hold office throughout his tenure of the See; and the Vice Chancellor who shall hold office as Council member so long as he or she is the Vice Chancellor and has chosen to be a Council member. The Chair's term of office is an appointed position for three years with a possible renewal period of three years.

Institutional governance statement (continued)

The Clerk to the University Council maintains a register of financial and personal interests of the University Council. The register is available for inspection at the University address.

The University Council and its committees meet as follows:

- University Council – four times per year;
- Finance, Employment and General Purposes Committee – at least three times per year;
- Audit Committee – four times per year;
- Nominations and Governance Committee – normally three times per year;
- Remuneration Committee – at least once per year; and
- Selection Committee – as and when required.

Recognising that decisions may sometimes be required at times when it is not possible or expedient for the University Council as a whole to meet, the University Council has resolved that decisions may be taken on its behalf by two of the following:

- the Chair of the University Council;
- the Vice-Chair of the University Council;
- the Vice Chancellor.

Similarly, decisions may be taken on behalf of committees by the Chair of the relevant committee with two of the three people listed above.

The University Council has delegated certain of its functions to committees. The University Council determines the membership of its committees, which then elect their own Chair. The scope of the committees' responsibilities is summarised below:

- the Finance, Employment and General Purposes Committee deals with such employment, financial and administrative matters as the University Council may remit to it;
- the Audit Committee is responsible for monitoring the performance and effectiveness of internal and external audit, reviewing the effectiveness of the internal control system and a range of other matters relating to financial efficiency, effectiveness and propriety;
- the Nominations Committee advises the University Council about the appointment of independent members to the University Council and the membership of committees of the University Council, other than the Nominations Committee itself;
- the Remuneration Committee advises the University Council about the remuneration and terms and conditions of employment of senior staff, including the Vice Chancellor; and
- the Selection Committee manages the appointment process for senior posts and advises the Council members about such appointments.

The University Senate is a committee of the staff of the University whose composition and functions are defined in the Articles of Government. Its purpose is to make recommendations to the Vice Chancellor or the University Council, as appropriate, about the content of the University curriculum, academic standards and a range of related matters.

Statement of the University Council's responsibilities

In accordance with the University's Instrument and Articles of Government, the University Council is responsible for the administration and management of the University's affairs, including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

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

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The University Council is satisfied that it 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 University Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England (HEFCE) and the National College for Teaching and Leadership (NCTL) are used only for the purposes for which they have been given and in accordance with the Funding Agreement with the Funding Council and the Financial Memorandum with the Agency and any other conditions which the funding bodies may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

**Statement of the University Council's responsibilities
(continued)**

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 key performance indicators and termly 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 University Council;
- comprehensive financial regulations, detailing financial controls and procedures, approved by the Audit Committee and the University Council;
- a professional Internal Audit team whose annual programme is approved by the Audit Committee and endorsed by the University Council and whose head provides the University Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Statement of internal control

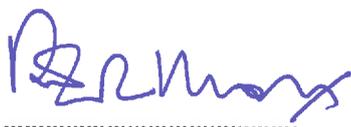
1. As the University Council of Bishop Grosseteste University, we have responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the University Council in the instrument and articles and the Financial Memorandum with the NCTL and the HEFCE.
2. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an on-going process designed to identify the principal risks to the achievement of policies, aims and objectives; to evaluate the nature and extent of those risks; and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2014 and up to the date of approval of the financial statements and accords with HEFCE guidance.

**Statement of the University Council's responsibilities
(continued)**

4. As the University Council, we have responsibility for reviewing effectiveness of the system of internal control. The following processes have been established:
- a. Regular meetings (at least termly) are held to consider the plans and strategic direction of the University.
 - b. Regular reports are received from the Chair of the Audit Committee concerning internal control, and we require regular reports from the Vice Chancellor on the steps being taken to manage risks, including progress reports on key projects.
 - c. We have requested the Audit Committee to oversee risk management.
 - d. The Audit Committee receives regular reports from the Head of Internal Audit, which include the Head of Internal Audit's independent opinion on the adequacy and effectiveness of the University's system of internal control, together with recommendations for improvement.
 - e. A regular agenda item for the Senior Leadership Team to identify and keep up to date the record of risks facing the organisation.
 - f. A programme of risk awareness training is under way through Staff Council and off-campus staff development days.
 - g. A robust risk prioritisation methodology based on risk ranking has been established.
 - h. Reports are received from senior staff on internal control activities.
5. Our review of the effectiveness of the system of internal control is informed by the internal audit service, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in December 2009. The internal auditors submit regular reports which include the head of internal audit's independent opinion on the adequacy and effectiveness of the University's system of internal control, with recommendations for improvement.
6. Our review of the effectiveness of the system of internal control is also informed by the work of the Senior Leadership Team within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Disclosure of information to auditors

The Council members who held office at the date of approval of this report confirm that so far as they are each aware there is no relevant audit information of which the University's auditors are unaware; and each Council member has taken all the steps that he or she ought to have taken to be aware of any relevant audit information and to establish that the University's auditors are aware of that information.



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CHAIR

19th November 2014

**Report of the independent auditors' to the University Council of
Bishop Grosseteste University**

We have audited the group and parent institution financial statements (the "financial statements") of the Bishop Grosseteste University for the year ended 31 July 2014 which comprise the Consolidated Income and Expenditure Account, the Consolidated and Parent Institution Balance Sheets, the Consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Respective responsibilities of Council and auditors

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

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group's and institution's affairs as at 31 July 2014 and of the group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice –Accounting for Further and Higher Education.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matter where the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 requires us to report to you if, in our opinion:

- the statement of internal control included as part of the Corporate Governance Statement is inconsistent with our knowledge of the parent institution and group.

Mazars LLP
Park View House
58, The Ropewalk
Nottingham.
NG1 5DW.

Date:

Statement of principal accounting policies**1. Statement of accounting policies**

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

2. Basis of preparation

These financial statements have been prepared in accordance with the statement of recommended practice (SORP): Accounting for Further and Higher Education 2007 and in accordance with United Kingdom Generally Accepted Accounting Practice. They conform to guidance published by HEFCE and the NCTL.

3. Basis of accounting

The financial statements are prepared under the historical cost convention modified by the revaluation of certain fixed assets.

4. Basis of consolidation

The consolidated financial statements include the University and its subsidiary undertaking, BG (Lincoln) Limited. Intra-group sales and profits are eliminated fully on consolidation. In accordance with FRS2, the activities of the student union have not been consolidated because the University does not control those activities. All financial statements are made up to 31st July 2014.

5. Recognition of income

Grant:

The recurrent grants from the HEFCE and the NCTL represent the funding allocations attributable to the current financial year and credited directly to the income and expenditure account. Recurrent grants are recognised in line with planned activity. Any under-achievement against this planned activity is adjusted at the year end and reflected in the level of recurrent grant recognised in the income and expenditure account.

Non-recurrent grants from the HEFCE and the NCTL received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and amortised in line with depreciation over the life of the assets.

Other income:

Income from academic fees, other operating income, short-term deposits and interest is credited to the income and expenditure account in the period in which it is earned.

6. Maintenance of premises

The University has produced a long-term maintenance plan. The plan includes all recurring work, the number of years necessary to complete a full maintenance cycle, and the likely annual cost. The cost of long-term and routine corrective maintenance is charged to the income and expenditure account as incurred.

Statement of principal accounting policies (continued)**7. Foreign currency translation**

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

8. Pension schemes

Retirement benefits for most employees of the University are provided by the Teachers' Pension Scheme (TPS) and the Local Government Pension Scheme (LGPS). These are defined benefit schemes which are independently administered schemes, funded by contributions from the University and the employees and are contracted out of the State Earnings-Related Pension Scheme. Contributions to the TPS are charged to the income and expenditure so as to spread the cost of pensions over employees' working lives with the University in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method. As stated in note 24, the TPS is a multi employer scheme and the University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. The TPS is therefore treated as a defined contribution scheme and the contributions recognised as they are paid each year.

The assets of the LGPS are measured using closing market values. LGPS liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability. The increase in the present value of the liabilities of the scheme expected to arise from employee service in the period is charged to the operating surplus. The expected return on the scheme's assets and the increase during the period in the present value of the scheme's liabilities, arising from the passage of time, are included in pension finance costs. Actuarial gains and losses are recognised in the statement of total recognised gains and losses.

9. Enhanced Pensions

The actual cost of any enhanced on-going pension to a former member of staff is paid by the University annually. An estimate of the expected future cost of any enhancement to the on-going pension of a former member of staff is charged in full to the University's income and expenditure account in the year that the member of staff retires. In subsequent years a charge is made to provisions in the balance sheet using guidance prepared for the HEFCE by Deloitte Actuarial & Benefit Services.

10. Tangible fixed assets**a. Land and Buildings**

Land and buildings are stated at cost or, in the case of land and buildings held at 1 August 1993, at a professional valuation. The transitional provisions of FRS 15, 'Tangible Fixed Assets', were being followed. The basis of valuation is open market value for existing use or, where such a valuation is not practicable, depreciated replacement cost. The valuation carried out on 9 June 1995 was performed by Humberts Stapleton, Chartered Surveyors. This valuation has not been updated. Land is held freehold and is not depreciated. Buildings are depreciated over their expected useful lives of 50 years from 1 August 1993 or from the date of acquisition. Subsequent capital improvements to existing buildings are depreciated over the remaining useful life of the building to which the expenditure relates.

Statement of principal accounting policies (continued)**b. Equipment**

All equipment costing more than £1,000 and having an expected life of more than one year is capitalised. Equipment, including motor vehicles, is stated at cost and depreciated over its expected useful life of 5 years.

c. Subsequent expenditure on existing fixed assets

Where significant expenditure is incurred on tangible fixed assets it is charged to the income and expenditure account in the period it is incurred, unless it meets one of the following criteria, in which case it is capitalised and depreciated on the relevant basis:

- Market value of the fixed asset has subsequently improved;
- Asset capacity increases;
- Substantial improvement in the quality of output or reduction in operating costs;
- Significant extension of the assets life beyond that conferred by repairs and maintenance.

11. Stocks

The stocks are catering provisions and shop items. Stocks are stated at the lower of cost and net realisable value. Where necessary, provision is made for obsolete, slow moving and defective stocks.

12. Taxation

The University is considered to pass the tests set out in paragraph 1 schedule 6 of the Finance Act 2010 and therefore it meets the definitions of a charity for UK corporation tax purposes. Accordingly the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by chapter 3 part 11 Corporation Tax Act 2010 or the Taxation of Chargeable Gains Act 1992 to the extent that such income is applied to exclusively charitable purposes.

The University receives no similar exemption in respect of value added tax (VAT). For this reason the University is generally unable to recover input VAT it suffers on goods and services purchased. Non-pay expenditure is therefore shown inclusive of VAT with any partial recovery netted off against these figures.

The University's subsidiary company, BG (Lincoln) Ltd, is subject to corporation tax and VAT in the same way as any commercial organisation.

13. Cash Flows and Liquid Resources

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

Liquid resources comprise assets held as a readily disposable store of value. They include term deposits held as part of the University's treasury management activities.

14. Provisions

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

Consolidated Income and Expenditure Account

For the year ended 31 July 2014

	Notes	2014 £000	2013 £000
INCOME			
Funding council grants	1	2,216	4,425
Tuition fees and education contracts	2	12,568	10,505
Research grants and contracts	3	53	88
Other income	4	2,331	2,512
Investment income	5	64	76
		<u>17,232</u>	<u>17,606</u>
EXPENDITURE			
Staff costs	6	8,589	8,416
Other operating expenses	7	5,561	5,817
Depreciation	11	1,101	918
Interest payable	8	-	52
		<u>15,251</u>	<u>15,203</u>
Surplus on continuing operations after depreciation of assets at valuation and before tax		1,981	2,403
Profit on disposal of assets		-	82
Taxation		-	-
		<u>1,981</u>	<u>2,485</u>
Surplus on continuing operations after depreciation of assets at valuation and tax	10	<u>1,981</u>	<u>2,485</u>

The income and expenditure account is in respect of continuing activities.

Consolidated Statement of Historical Cost Surpluses and Deficits**For the year ended 31 July 2014**

	Notes	2014 £000	2013 £000
Surplus on continuing operations before taxation		1,981	2,485
Realisation of property revaluation gains of previous years	17	-	263
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	17	36	45
Historical cost surplus for the year before taxation		<u>2,017</u>	<u>2,793</u>
Historical cost surplus for the year after taxation		<u>2,017</u>	<u>2,793</u>

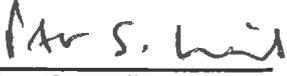
Consolidated Statement of Total Recognised Gains and Losses
For the year ended 31 July 2014

	2014 £000	2013 £000
Surplus after depreciation of assets at valuation and tax	1,981	2,485
Actuarial gain/(loss) in respect of the pension scheme (note 24)	(1,727)	804
Total recognised gain relating to the year	<u>254</u>	<u>3,289</u>
Reconciliation of reserves		
Opening reserves	21,446	18,157
Total recognised gain relating to the year	254	3,289
Closing reserves	<u>21,700</u>	<u>21,446</u>

Balance sheets as at 31 July 2014

	Notes	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
Fixed Assets					
Tangible assets	11	<u>21,435</u>	<u>21,424</u>	<u>19,036</u>	<u>19,036</u>
Current Assets					
Stock		13	-	3	-
Debtors	13	1,483	1,909	494	549
Short-term deposits		3,235	3,235	6,215	6,215
Cash at bank and in hand		4,803	4,655	3,905	3,814
Total Current Assets		<u>9,534</u>	<u>9,799</u>	<u>10,617</u>	<u>10,578</u>
Less: Creditors - amounts falling due within one year	14	<u>(1,438)</u>	<u>(1,382)</u>	<u>(1,974)</u>	<u>(1,935)</u>
Net Current Assets		<u>8,096</u>	<u>8,417</u>	<u>8,643</u>	<u>8,643</u>
Total assets less current liabilities excluding pension liability		<u>29,531</u>	<u>29,841</u>	<u>27,679</u>	<u>27,679</u>
Net pension liability	25	<u>(4,686)</u>	<u>(4,569)</u>	<u>(2,856)</u>	<u>(2,856)</u>
NET ASSETS INCLUDING PENSION LIABILITY		<u><u>24,845</u></u>	<u><u>25,272</u></u>	<u><u>24,823</u></u>	<u><u>24,823</u></u>
Deferred capital grants	16	<u>3,264</u>	<u>3,264</u>	<u>3,377</u>	<u>3,377</u>
Restricted reserves	18	<u>844</u>	<u>844</u>	<u>844</u>	<u>844</u>
Income and expenditure account excluding pension reserve	19	23,458	23,768	21,457	21,457
Pension Reserve	25	<u>(4,686)</u>	<u>(4,569)</u>	<u>(2,856)</u>	<u>(2,856)</u>
Income and expenditure account including pension reserve	19	<u>18,772</u>	<u>19,199</u>	<u>18,601</u>	<u>18,601</u>
Revaluation reserve	17	<u>1,965</u>	<u>1,965</u>	<u>2,001</u>	<u>2,001</u>
TOTAL		<u><u>24,845</u></u>	<u><u>25,272</u></u>	<u><u>24,823</u></u>	<u><u>24,823</u></u>

The financial statements on pages 14 to 43 were approved by the University Council on 19 November 2014 and were signed on its behalf by:


 Vice Chancellor
 Bishop Grosseteste University


 Chair of University Council


 Director of Resources

Consolidated Cash Flow Statement**For the year ended 31 July 2014**

	Notes	2014 £000	2013 £000
Cash inflow from operating activities	20	1,194	3,210
Returns on investments and servicing of finance	21	64	24
Capital expenditure and financial investment	22	(3,340)	(4,760)
Management of liquid resources	23	2,980	2,929
Increase in cash	23	<u>898</u>	<u>1,403</u>
Reconciliation of net cash flow to movement in net funds			
Increase in cash		898	1,403
Movement in short term deposits		<u>(2,980)</u>	<u>(2,929)</u>
Movement in net funds in year		(2,082)	(1,526)
Net funds at 1 August		<u>10,120</u>	<u>11,646</u>
Net funds at 31 July	23	<u>8,038</u>	<u>10,120</u>

In this Statement, figures in brackets refer to cash outflows and all other figures are cash inflows to the Group.

Notes to the financial statements

1. Funding council grants

	2014			2013
	HEFCE £000	NCTL £000	TOTAL £000	£000
Recurrent Grant	1,532	399	1,931	3,872
Specific Grants				
HEFCE Inherited Liabilities - Staff	26	-	26	14
HEFCE Other	3	-	3	2
NCTL Graduate Teacher Programme	-	-	-	241
NCTL Other	-	30	30	5
Deferred Capital Grants Released in Year				
Buildings (Note 16)	64	-	64	53
Equipment grant (Note 16)	160	2	162	238
	<u>1,785</u>	<u>431</u>	<u>2,216</u>	<u>4,425</u>

2. Tuition fees and education contracts

	2014 £000	2013 £000
UK Higher Education Students	12,568	10,505
	<u>12,568</u>	<u>10,505</u>

3. Research grants and contracts

	2014 £000	2013 £000
Other grants and contracts	<u>53</u>	<u>88</u>

Notes to the financial statements (continued)

4. Other income

	2014 £000	2013 £000
Residences, catering and conferences	1,768	1,533
Non-Funding Council Capital Grants Released (Note 16)	46	46
Other Income	517	933
	<u>2,331</u>	<u>2,512</u>

5. Investment income

	2014 £000	2013 £000
Investment income from short-term deposits	37	71
Other interest receivable	-	5
Interest on FRS 17 Liability (Note 24)	27	-
	<u>64</u>	<u>76</u>

Notes to the financial statements (continued)

6. Staff

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

	2014 Number Group	2014 Number University	2013 Number Group
Academic	75	75	72
Management and Administrative	97	92	98
Other	52	37	46
	<u>224</u>	<u>204</u>	<u>216</u>

Staff costs for the above persons:

	2014 £000 Group	2014 £000 University	2013 £000 Group
Wages and salaries	6,965	6,557	6,892
Social security costs	527	505	512
Other pension costs - FRS 17 adjustment	25	27	-
Other pension costs (Note 24)	1,072	1,006	1,012
	<u>8,589</u>	<u>8,095</u>	<u>8,416</u>

The above costs include amounts payable to the Vice Chancellor (who is the highest paid senior post holder) of:

	2014 £	2013 £
Salary	126,735	139,185
Benefits in kind	4,423	5,573
	<u>131,158</u>	<u>144,758</u>
Pension contributions	<u>25,385</u>	<u>14,248</u>

The pension contributions in respect of the Vice Chancellor are in respect of employer's contributions to the Teachers' Superannuation Scheme & USS scheme and are paid at the same rate as for other employees.

No member of staff other than the Vice Chancellor received remuneration of more than £100,000 (excluding employer's pension contributions).

Notes to the financial statements (continued)

7. Other operating expenses

	2014	2013
	£000	£000
Residences, Catering & Conferences Operating Expenditure	998	857
Residences - Long-Term Maintenance	31	54
Consumables and Laboratory Expenditure	338	253
Books and Periodicals	125	111
Heat, Light, Water and Power	292	288
Repairs and General Maintenance	96	98
Non-Residential - Long-Term Maintenance	376	482
Grants to BG Students' Union	95	51
External Auditors' Remuneration		
Financial Statements Audit	36	15
Internal Auditors' Remuneration	30	29
Bursary Payments to Students	434	623
Other Expenses	<u>2,710</u>	<u>2,956</u>
	<u>5,561</u>	<u>5,817</u>

8. Interest payable

	2014	2013
	£000	£000
Interest on FRS 17 Liability (Note 24)	<u>-</u>	<u>52</u>
	<u>-</u>	<u>52</u>

Notes to the financial statements (continued)

9. Analysis of 2013/14 expenditure by activity

	Staff Costs £000	Dep'n £000	Operating Expenses £000	Interest Payable £000	Total University £000
Academic Departments	3,836	-	1,132	-	4,968
Academic Services	346	-	192	-	538
Residences & Catering Premises	-	-	529	-	529
Administration	534	-	798	-	1,332
Other Expenses	3,230	-	1,116	-	4,346
	149	1,098	1,175	-	2,422
Totals per Income and Expenditure Account	8,095	1,098	4,942	-	14,135
BG (Lincoln) Ltd	494	3	619	-	1,116
Total Group	8,589	1,101	5,561	-	15,251

The depreciation charge has been funded by:

Deferred Capital Grants Released (Note 16)	272
Revaluation Reserve Released (Note 17)	36
General Income	793
	1,101

10. Surplus on continuing operations for the year

	2014 £000	2013 £000
University's surplus for the year	2,289	2,370
(Loss)/Surplus generated by the subsidiary undertaking	(308)	115
Total	1,981	2,485

Notes to the financial statements (continued)

11. Tangible fixed assets (Group and University)

Cost or valuation At 1 August 2013	Land and Buildings		Assets in course of construction £000	Equipment £000	University Total £000	BG(Lincoln) Ltd Equipment £000	Group Total £000
	Land £000	Leasehold £000					
At valuation	927	2,500	-	-	3,427	-	3,427
At cost	118	17,212	-	4,765	22,103	-	22,103
Additions	-	2,714	-	771	3,485	14	3,499
Disposals	-	-	-	-	-	-	-
At 31 July 2014	927	2,500	-	-	3,427	-	3,427
At cost	118	19,926	-	5,536	25,588	14	25,602
	1,045	22,426	-	5,536	29,015	14	29,029
Depreciation							
At 1 August 2013	-	2,749	-	3,744	6,493	-	6,493
Charge for period	-	546	-	552	1,098	3	1,101
Eliminated in respect of disposals	-	-	-	-	-	-	-
At 31 July 2014	-	3,295	-	4,296	7,591	3	7,594
Net Book Value							
At 31 July 2014	1,045	19,131	-	1,240	21,424	11	21,435
At 31 July 2013	1,045	12,753	4,209	1,021	19,036	-	19,036

Notes to the financial statements (continued)

Certain buildings have been partially funded from external sources. Should these particular buildings be sold, the University may either have to surrender the proceeds to the external party or use them in accordance with the financial memorandum or agreement made with that particular external party.

12. Investments

The University holds all the issued ordinary share capital of BG (Lincoln) Limited, a trading company registered in England and Wales, the principal activity of which is the organisation of functions and conferences and catering. The University's interest in the company at 31 July, 2014, comprised Share Capital of £2 (2013, £2).

13. Debtors - Amounts falling due within one year

	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
Trade debtors	1,341	1,271	382	322
Amounts owed by subsidiary undertaking	-	500	-	115
Prepayments and accrued income	142	138	112	112
	<u>1,483</u>	<u>1,909</u>	<u>494</u>	<u>549</u>

14. Creditors: Amounts falling due within one year

	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
Payments received in advance	112	75	77	60
Trade creditors	1,161	1,161	1,545	1,545
Other taxation and social security	31	18	188	188
Accruals	6	0	29	7
Amounts owed to funding councils	114	114	132	132
Hardship Funds & Opportunity Bursaries carried forward (Note 29)	14	14	3	3
	<u>1,438</u>	<u>1,382</u>	<u>1,974</u>	<u>1,935</u>

Notes to the financial statements (continued)

15. Enhanced pension provision	Group and University Total £000
At 1 August 2013	395
Utilised in Year	(28)
Revaluation	-
Transfer from income & expenditure account	14
At 31 July 2014	<u>381</u>

The calculation of the cost of early retirement provisions charged to the income and expenditure account in the year of retirement is based on the total capital cost of providing enhanced pensions with allowance for future investment at 2½% in excess of price inflation. The overall provision was revalued in 2011/12 financial year using guidance prepared for the HEFCE by Deloitte Actuarial & Benefit Services. The provision will be released against the cost to the University of enhanced pension entitlements over the estimated life expectancy of each relevant ex-employee.

The enhanced pension provision relates mostly to early retirements whereby an expectation of the payment existed prior to retirement. As such, the account has been treated as a retirement benefit pension under FRS17 (see Note 25).

Notes to the financial statements (continued)

16. Deferred capital grants

Group and University

	HEFCE £000	NCTL £000	Other £000	Total £000
At 1 August 2013				
Buildings	2,080	-	1,022	3,102
Equipment	191	35	49	275
Total	2,271	35	1,071	3,377
Cash Receivable in the Year				
Buildings	-	-	39	39
Equipment	120	-	-	120
Total	120	-	39	159
Released to Income & Expenditure				
Buildings (Note 1 and Note 4)	(64)	-	(34)	(98)
Equipment (Note 1)	(160)	(2)	(12)	(174)
Total (Note 9)	(224)	(2)	(46)	(272)
At 31 July 2014				
Buildings	2,016	-	1,027	3,043
Equipment	151	33	37	221
Total	2,167	33	1,064	3,264

Notes to the financial statements (continued)

17. Revaluation reserve

	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
At 1 August	2,001	2,001	2,309	2,309
Transfer from revaluation reserve to general reserve in respect of:				
Eliminated in respect of disposals	-	-	(263)	(263)
Depreciation on revalued assets	(36)	(36)	(45)	(45)
At 31 July	<u>1,965</u>	<u>1,965</u>	<u>2,001</u>	<u>2,001</u>

18. Restricted reserves

	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
Permanent endowment reserves				
At 1 August 2013 and at 31 July 2014	<u>697</u>	<u>697</u>	<u>697</u>	<u>697</u>
Other restricted reserves				
At 1 August 2013 and at 31 July 2014	<u>147</u>	<u>147</u>	<u>147</u>	<u>147</u>
Total restricted reserves at 31 July	<u>844</u>	<u>844</u>	<u>844</u>	<u>844</u>

Other restricted reserves

During 2006 the University, sold a property with proceeds of £147,000. The proceeds from the sale are to be reinvested within 3 years from the sale date. The funds were used to assist with the building of a new administration office at the University.

Permanent endowment reserves

Permanent endowment reserves are made up from the sale of two properties previously owned by the University. As required by the Charity Commission, the University Council obtained and considered proper advice before investing this money. To date £332,000 has been used to purchase an additional residential building and the remaining funds are currently held in an interest bearing account.

Notes to the financial statements (continued)

19. Income and expenditure account

	Group 2014 £000	University 2014 £000	Group 2013 £000	University 2013 £000
At 1 August	18,601	18,601	15,004	15,004
Surplus on continuing operations	1,981	2,289	2,485	2,485
Opening FRS17 for BG (Lincoln) Ltd	(73)	-	-	-
Transfer from Revaluation Reserve	36	36	308	308
Actuarial gain/(loss) in respect of pension	<u>(1,773)</u>	<u>(1,727)</u>	<u>804</u>	<u>804</u>
At 31 July	<u>18,772</u>	<u>19,199</u>	<u>18,601</u>	<u>18,601</u>
Balance represented by:				
Pension reserve (Note 25)	(4,686)	(4,569)	(2,856)	(2,856)
Income and expenditure account reserve excluding pension reserve	<u>23,458</u>	<u>23,768</u>	<u>21,457</u>	<u>21,457</u>
At 31 July	<u>18,772</u>	<u>19,199</u>	<u>18,601</u>	<u>18,601</u>

Notes to the financial statements (continued)

20. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2014 £000	2013 £000
Surplus on continuing operations after depreciation of assets at valuation and disposal of assets	1,981	2,485
Depreciation (Note 11)	1,101	918
Deferred capital grants released to income (Note 16)	(272)	(337)
Profit on disposal of fixed assets	-	(82)
Interest Paid (Note 8)	-	52
Pension cost less contributions payable	(3)	52
Decrease in Stocks	(10)	10
(increase) in Debtors	(989)	(172)
(Decrease)/Increase in Creditors	(536)	373
(Decrease) in provisions	(14)	(13)
Interest received (Note 5)	(64)	(76)
	<u>1,194</u>	<u>3,210</u>
Net Cash Inflow from Operating Activities	<u>1,194</u>	<u>3,210</u>

21. Returns on investments and servicing of finance

	2014 £000	2013 £000
Investment interest received (Note 5)	64	76
Interest paid (Note 8)	-	(52)
	<u>64</u>	<u>24</u>

22. Capital expenditure and financial investment

	2014 £000	2013 £000
Proceeds from sale of tangible fixed assets	-	345
Purchase of tangible fixed assets (Note 11)	(3,499)	(5,416)
Deferred capital grants received (Note 16)	159	311
	<u>(3,340)</u>	<u>(4,760)</u>
Net cash outflow from capital expenditure and financial investment	<u>(3,340)</u>	<u>(4,760)</u>

Notes to the financial statements (continued)

23. Analysis of changes in net funds

	At 2013 £000	Cash Flows £000	At 2014 £000
Cash in hand and at bank	3,905	898	4,803
Short-term deposits	<u>6,215</u>	<u>(2,980)</u>	<u>3,235</u>
	<u>10,120</u>	<u>(2,082)</u>	<u>8,038</u>

24. Pension and similar obligations

The Groups employees belong to five principal pension schemes, the Church of England Funded Pensions Scheme, the Teachers' Pensions Scheme (TPS), the Local Government Pension Scheme (LGPS), the University Superannuation Scheme (USS) and the Bishop Grosseteste University Flexible Retirement Account provided by Friends Life. Four of these schemes are defined benefit schemes with the Bishop Grosseteste University Flexible Retirement Account being a defined contribution scheme.

Total pension cost for the year

The pension contributions for the year was £1,072,000 (2013: £1,012,000) excluding the FRS 17 adjustment.

	2014 Group £000	2013 University £000	2013 Group £000
Teachers' Pension Scheme: contributions payable	416	416	422
Local Government Pension Scheme: Charge to the Income and Expenditure Account	598	539	586
Universities Superannuation Scheme: contributions payable	31	31	0
Church of England Funded Pensions Scheme: contributions payable	11	11	4
Bishop Grosseteste University Flexible Retirement Account : Charge to I&E account	16	9	0
Total Pension Cost for Year (excluding the FRS 17 adjustment)	<u>1,072</u>	<u>1,006</u>	<u>1,012</u>

The pension costs are assessed in accordance with the advice of independent qualified actuaries. The latest actuarial valuation of the TPS was 31 March 2004 and the LGPS was 31 March 2010.

No contributions were payable to the schemes at 31st July (2013 £115,000).

Notes to the financial statements (continued)**Church of England Funded Pensions Scheme:**

Bishop Grosseteste University participates in the Church of England Funded Pensions Scheme and employs 1 member of the Scheme out of a total membership of approximately 8,500 active members.

The Church of England Funded Pensions Scheme is a defined benefit scheme but Bishop Grosseteste University is unable to identify its share of the underlying assets and liabilities - each employer in that scheme pays a common contribution rate. A valuation of the Scheme was carried out as at 31 December 2012. This revealed a shortfall of £293m, with assets of £896m and a funding target of £1,189m, assessed using the following assumptions:

- An investment strategy of:
 - for investments backing liabilities for pensions in payment, an allocation to gilts, increasing linearly from 10% at 31 December 2012 to 2/3 by 31 December 2029, with the balance in return-seeking assets; and
 - for investments backing liabilities prior to retirement, a 100% allocation to return-seeking assets.
- Investment returns of 3.2% pa on gilts and 5.2% pa on equities;
- RPI inflation of 3.2% pa (and pension increases consistent with this);
- Increase in pensionable stipends of 3.2% pa; and
- Post-retirement mortality in accordance with 80% of the S1NMA and S1NFA tables, with allowance made for improvements in mortality rates from 2003 in line with the CMI 2012 core projections, with a long term annual rate of improvement of 1.5% for males and females.

For schemes such as the Church of England Funded Pensions Scheme, paragraph 9(b) of FRS 17 requires Bishop Grosseteste University to account for pension costs on the basis of contributions actually payable to the Scheme in the year.

Following the results of the 2012 valuation, Bishop Grosseteste University contribution rate is due to increase from 38.2% to 39.9% of pensionable stipends from 1 January 2015 (of which 14.1% will be in respect of the £293m shortfall in the Scheme and 25.8% is in respect of accrual of future benefits and the day-to-day expenses of running the Scheme).

Contributions rates will be reviewed at the next valuation of the Scheme, due as at 31 December 2015.

Teachers' Pension Scheme (TPS):**Teachers' Pension Scheme**

The Teachers' Pension Scheme ("TPS") is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operations are the Teachers' Pensions Regulations 2010. These regulations apply to teachers in schools and other educational establishments in England and Wales maintained by local authorities, to teachers in many independent and voluntary-aided schools and to teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teacher and lecturers and from 1 January 2007 automatic too for teachers and lecturers in part-time employment following appointment or change of contract. Teachers and lecturers are able to opt out of the TPS.

The Teachers' Pension Budgeting and Valuation Account

Although teachers and lecturers are employed by various bodies, their retirement and other pension benefits, including annual increases payable under the Pensions (Increase) Acts are, as provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Under the unfunded TPS, teachers' contributions on a 'pay-as-you-go' basis, and employers' contributions, are credited to the Exchequer under arrangements governed by the above Act.

Notes to the financial statements (continued)

The Teachers' Pensions regulations require an annual account, the Teachers' Pension Budgeting and Valuation Account, to be kept of receipts and expenditure (including the cost of pensions' increases) from 1 April 2001, the Account has been credited with a real rate of return (in excess of price increases and currently set at 3.5%), which is equivalent to assuming that the balance in the Account is invested in notional investments that produce real rate of return.

Valuation of the Teachers' Pension Scheme

Not less than every four years the Government Actuary ("GA"), using normal actuarial principles, conducts a formal actuarial review of the TPS. The aim of the review is to specify the level of future contributions.

The contribution rate paid into the TPS is assessed in two parts. First, a standard contribution rates ("SCR") is determined. This is the contribution, expressed as a percentage of the salaries of teachers and lecturers in service or entering service during the period over which the contribution rate applies, which if it were paid over the entire active service of these teachers and lecturers would broadly defray the cost of benefits payable in respect of that service. Secondly, a supplementary contribution is payable if, as a result of the actuarial investigate, it is found that accumulated liabilities of the Account for benefits to past and present teachers, are not fully covered standard contributions to be paid in future and by the notional fund built up from past contributions. The total contribution rate payable is the sum of the SCR and the supplementary contribution rate.

The last valuation of the TPS related to the period 1 April 2001 – 31 March 2004 the GA's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2007, and as part of the cost-sharing agreement between employers' and teachers' representatives, the SCR was assessed at 19.75% and the supplementary contribution rates was assessed to be 0.75% (to balance assets and liabilities as required by the regulations within 15 years). This resulted in a total rate of 14.1% payable. The cost-sharing agreement also introduced – effective for the first time for the 2008 valuation – a 14% cap on employer contributions payable.

Scheme Changes

From 1 April 2013 to 31 March 2014, the employee contribution rate will change between 6.4% and 8.8%, depending on a member's Full Time Equivalent salary. Further changes to the employee contribution rate will be applied 2014-15.

Actuarial scheme valuations are dependent on assumptions about the value of future costs, design of benefits and many other factors. Many of these are being discussed in the context of the design for a reformed TPS, as set out in the Proposed Final Agreement, and scheme valuations are, therefore, currently suspended. The Government, however, has set out a future process for determining the employer contribution rate under the new scheme, and this proves will involve a full actuarial valuation.

The Proposed Final Agreement can be found at:

<http://media.education.gov.uk/assets/files/ppt/t/tps%20proposed%20final%20agreement.pdf>

The pension costs paid to TPS in the year amounted to £416,000 (2012/13: £422,000)

Notes to the financial statements (continued)**Universities Superannuation Scheme (USS)**

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

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2014 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (i.e. the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

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

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

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of this valuation, the trustee has determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. In 2011 the actuary estimated that if experience remained in line with the assumptions made, the shortfall at 31 March 2014 would be £2.2 billion, equivalent to a funding level of 95%.

However, changes in market conditions between March 2011 and March 2014 have had an impact on scheme funding. The next formal triennial actuarial valuation will take place as at 31 March 2014 and work is currently

Notes to the financial statements (continued)

underway to update the actuarial assumptions and allow for any adjustments to the overall funding approach adopted by the trustee board in consultation with stakeholders.

As work on the 2014 valuation is not yet complete the trustee cannot provide the final figure however, an estimate has been provided using the assumptions used to deliver the 2011 actuarial valuation. On that basis, the actuary has estimated that the funding level under the scheme specific funding regime will have fallen from 92% at 31 March 2011 to 85% at 31 March 2014. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions.

The funding level has decreased mainly due to a decrease in real gilt yields, reducing the implied net discount rate and therefore placing a higher value on the schemes liabilities. This increase has been partially offset by a higher than expected investment return.

On the FRS17 basis, using an AA bond discount rate of 4.5% per annum based on spot yields, the actuary estimates that the funding level at 31 March 2014 was 75%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 61%.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

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

As at the 2011 valuation the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of Salaries.

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

Since the valuation effective date of 31 March 2011 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New Entrants

Other than in specific, limited circumstances, new entrants are now provided benefits on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age

The normal pension age was increased for future service and new entrants, to age 65.

Flexible Retirement

Flexible retirement options were introduced.

Notes to the financial statements (continued)*Member contributions increased*

Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing

If the total contribution level exceeds 23.5% of Salaries per annum, the employers will pay 65% of the excess over 23.5% and members would pay the remaining 35% to the fund as additional contributions.

Pension increase cap

For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

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

At 31 March 2014, USS had over 162,000 active members and the institution had 2 active members participating in the scheme.

The total pension cost for the institution was £31,341 (2013: £Nil). The contribution rate payable by the institution was 16% of pensionable salaries.

Bishop Grosseteste University Flexible Retirement Account

The University operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the University in an independently administered fund. The pension cost charge represents contributions payable by the University to the fund and amounted to £9,000 (2013 - £nil).

FRS 17

Under the definitions set out in Financial Reporting Standard 17 Retirement Benefits, the TPS and USS are multi-employer pension schemes. The University is unable to identify its share of the underlying assets and liabilities of the scheme.

Accordingly, the University has taken advantage of the exemption in FRS 17 and has accounted for its contributions to the scheme as if it were a defined contribution scheme. The University has set out above the information available on the deficit in the scheme and the implications for the University in terms of the anticipated contribution rates.

Local Government Pension Scheme (LGPS):

The LGPS is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total contribution made for the year ended 31 July 2014 was £710,000, of which employer's contributions totalled £539,000 and employees' contributions totalled £171,000. The agreed contribution rates are 18.0% plus an annual lump sum of £140,000 for employers and between 5.5% and 7.5% depending upon salary for employees.

Notes to the financial statements (continued)

24. Pension and similar obligations (continued)

Local Government Pension Scheme (LGPS) (continued): FRS17

The following information is based upon a full actuarial valuation of the Fund at 31 March 2010 updated to 31 July 2014 by a qualified independent actuary

	Group At 31-Jul-14	University At 31-Jul-14	University At 31-Jul-13
Rate of increase for pensions/Inflation	2.70%	2.70%	2.80%
Rate of increase in salaries	4.00%	4.00%	5.10%
Expected return on assets	6.10%	6.10%	5.90%
Discount rate for liabilities	4.00%	4.00%	4.60%

The Groups share of the assets and liabilities in the scheme and the expected rates of return were:

	Long term rate of return expected at 31-Jul-14 %	Long term rate of return expected at 31-Jul-14 %	Long term rate of return expected at 31-Jul-13 %
Equities	6.6	6.6	6.4
Bonds	4.0	4.0	4.2
Property	4.7	4.7	4.6
Cash	3.6	3.6	3.4

	Year ended 31-Jul-14 £000	Year ended 31-Jul-14 £000	Year ended 31-Jul-13 £000
Equities	8,633	8,356	8,294
Bonds	1,476	1,429	1,276
Property	1,249	1,209	1,063
Cash	-	-	-
Total market value of assets	11,358	10,994	10,633

Notes to the financial statements (continued)

24. Pension and similar obligations (continued): Local Government Pension Scheme (LGPS) (continued):

	Group Year ended 31-Jul-14 £000	University Year ended 31-Jul-14 £000	Group Year ended 31-Jul-13 £000
University's estimated asset share	11,358	10,994	10,633
Present value of liabilities	<u>(15,663)</u>	<u>(15,182)</u>	<u>(13,094)</u>
Net pension liability	<u>(4,305)</u>	<u>(4,188)</u>	<u>(2,461)</u>

Analysis of the amount charged to income and expenditure account

	Year ended 31-Jul-14 £000	Year ended 31-Jul-14 £000	Year ended 31-Jul-13 £000
Service cost (net of employee contributions)	692	636	586
Past service cost	-	-	-
Losses on curtailments of settlements	<u>(70)</u>	<u>(70)</u>	<u>-</u>
Total operating charge	<u>622</u>	<u>566</u>	<u>586</u>

Analysis of pension finance income / costs

	Year ended 31-Jul-14 £000	Year ended 31-Jul-14 £000	Year ended 31-Jul-13 £000
Expected return on pension scheme assets	643	625	442
Interest on pension liabilities	<u>(616)</u>	<u>(598)</u>	<u>(494)</u>
Pension finance income / costs	<u>27</u>	<u>27</u>	<u>(52)</u>

Amount recognised in the statement of total recognised gains and losses (STRGL)

	Year ended 31-Jul-14 £000	Year ended 31-Jul-14 £000	Year ended 31-Jul-13 £000
Actuarial (losses)/gains on pension scheme ass	(400)	(398)	1,112
Actuarial (losses)/gains on scheme liabilities	<u>(1,373)</u>	<u>(1,329)</u>	<u>(308)</u>
Actuarial (loss)/gain recognised in the STRGL	<u>(1,773)</u>	<u>(1,727)</u>	<u>804</u>

Notes to the financial statements (continued)

24. Pension and similar obligations (continued)

Local Government Pension Scheme (LGPS) (continued):

Asset and Liability Reconciliation	Group Year ended 31-Jul-14 £000	University Year ended 31-Jul-14 £000	University Year ended 31-Jul-13 £000
Liabilities at start of period	13,441	13,094	11,808
Service cost	692	636	586
Interest cost	616	598	494
Employee contributions	187	171	167
Actuarial loss	1,373	1,329	308
Past service gains	-	-	-
Liabilities extinguished on settlements	(347)	(347)	-
Benefits paid	(299)	(299)	(269)
Liabilities at end of period	<u>15,663</u>	<u>15,182</u>	<u>13,094</u>
Assets at start of period	10,907	10,633	8,595
Expected return on assets	643	625	442
Actuarial loss/(gain)	(401)	(399)	1,112
Employer contributions	597	539	586
Employee contributions	187	171	167
Assets distributed on settlements	(274)	(274)	-
Benefits paid	(299)	(299)	(269)
Assets at end of period	<u>11,360</u>	<u>10,996</u>	<u>10,633</u>

Notes to the financial statements (continued)

24. Pension and similar obligations (continued)

Local Government Pension Scheme (LGPS) (continued):

	Group Year ended 31-Jul-14 £000	University Year ended 31-Jul-14 £000	Group Year ended 31-Jul-13 £000
Movement in deficit during the year			
Deficit in scheme at 1 August	(2,534)	(2,461)	(3,213)
Movement in year:			
Current service charge (net of employee contributi	(692)	(536)	(586)
Contributions (employer)	597	539	586
Past service costs	-	-	-
Losses on Curtailments	70	70	-
Net (interest)/return on asset	27	27	(52)
Actuarial gain/(loss)	(1,773)	(1,727)	804
Deficit in scheme at 31 July	<u>(4,305)</u>	<u>(4,188)</u>	<u>(2,461)</u>

History of Experience Gains and Losses	2014	2014	2013
Difference between the expected and actual return on assets:			
Amount (£000)	(401)	(399)	1,112
Percentage of scheme assets	-3.5%	-3.6%	10.5%
Experience gains and losses on scheme liabilities:			
Amount (£000)	0	0	0
Percentage of scheme liabilities	0.0%	0.0%	0.0%
Total amounts recognised in STRGL			
Amount (£000)	(1,773)	(1,727)	804
Percentage of scheme liabilities	-11.3%	-11.4%	6.1%

History of Experience Gains and Losses	2012	2011	2010	2009
Difference between the expected and actual return on assets:				
Amount (£000)	(308)	691	441	(870)
Percentage of scheme assets	-3.6%	8.7%	6.9%	-17.0%
Experience gains and losses on scheme liabilities:				
Amount (£000)	(110)	(315)	0	1
Percentage of scheme liabilities	-0.9%	-3.3%	0.0%	0.0%
Total amounts recognised in STRGL				
Amount (£000)	(1,565)	925	331	(1,756)
Percentage of scheme liabilities	-13.3%	9.6%	3.7%	-22.0%

Notes to the financial statements (continued)

25. Pension liability

	Group 2014 £000	University 2014 £000	Group & University 2013 £000
LGPS liability (Note 24)	4,305	4,188	2,461
Enhanced pension provision (Note 15)	<u>381</u>	<u>381</u>	<u>395</u>
	<u>4,686</u>	<u>4,569</u>	<u>2,856</u>

26. Capital commitments

	Group and University	
	2014 £000	2013 £000
Land and Buildings	49	1,445
Equipment	<u>6</u>	<u>496</u>
Commitments contracted for at 31 July	<u>55</u>	<u>1,941</u>

27. Financial commitments

At 31 July the University had annual commitments under non-cancellable operating leases as follows

	Group and University	
	2014 £000	2013 £000
Land and Buildings Expiring in more than five years	364	364
Equipment Expiring between two and five years inclusive	<u>30</u>	<u>106</u>
	<u>394</u>	<u>470</u>

28. Related Party Transactions

Due to the nature of the University's operations and the composition of the University Council (being drawn from public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the University Council may have an interest. All transactions involving organisations in which a member of the University Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures. No transactions were identified which should be disclosed under Financial Reporting Standard 8 - Related Party Disclosures.

In the opinion of the University Council there is no controlling party.

Notes to the financial statements (continued)

29. Hardship funds & opportunity bursaries

	Group and University	
	2014 £000	2013 £000
Balance brought forward	3	7
Funding Council grants	83	73
	<u>86</u>	<u>80</u>
Disbursed to Students	(72)	(77)
	<u>14</u>	<u>3</u>
Balance unspent at 31 July, included in creditors		

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

30. Training bursaries

	Group and University	
	2014 £000	2013 £000
NCTL Grants	1,114	1,313
Disbursed to Students	(1,454)	(1,335)
Administration	-	-
	<u>-</u>	<u>-</u>
Balance (owed) 31 July, included in debtors	<u>(340)</u>	<u>(22)</u>

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

Notes to the financial statements (continued)

31. Student associate scheme

Group and University

	2014 £000	2013 £000
NCTL Grants carried forwards	41	41
Utilised in Year	<u>(41)</u>	<u>-</u>
Balance unspent at 31 July	<u>-</u>	<u>41</u>

32. Post Balance Sheet Events

No significant events have occurred since the balance sheet date.