



CRANFIELD UNIVERSITY

FINANCIAL STATEMENTS

for the year ended 31st July, 2018

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CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW
FOR THE YEAR ENDED 31ST JULY, 2018

Cranfield University is a research intensive, postgraduate university with a mission to create leaders in technology and management, unlocking the potential of people and organisations by partnering with business and governments to deliver transformational research, postgraduate education and professional development.

The activities of the University include teaching, research, design and development work in the themes of Aerospace, Defence and Security, Energy and Power, Environment and Agrifood, Management, Manufacturing, Transport Systems and Water. Operations are primarily carried out on campus at Cranfield in Bedfordshire and the facility at Shrivenham in Oxfordshire. The University is an exempt charity subject to the Charities Act 2011.

The financial statements comprise the consolidated results of the University and its subsidiaries. Subsidiary companies undertake activities which, for legal and commercial reasons, are more appropriately channelled through a limited company and include the development of activities emanating from Cranfield University.

Results for the year and position at year end

Operating income for the year (excluding donations and endowments) grew by 4.3% as summarised below:-

| | 2018 | 2017 |
|--------------------------------------|-------------|-------------|
| | £'000 | £'000 |
| Funding Council grants | 19,609 | 20,975 |
| Tuition fees and education contracts | 70,461 | 65,096 |
| Research grants and contracts | 36,727 | 34,420 |
| Other income | 38,530 | 37,944 |
| Investment income | 139 | 159 |
| | 165,466 | 158,594 |

The total comprehensive loss for the year was £4,551,000 (2017 – comprehensive income £8,240,000) as reported on page 31. However it is pleasing to report that the Universities Corporate Plan surplus, which measures the underlying operating position has been assessed by management to be a surplus of £1,617,000 (2017 – deficit £3,664,000) an improvement of £5,281,000 in the position for the year.

Capital expenditure in the year amounted to £15,933,000 (2017 - £19,952,000). This continues to reflect Cranfield's success in winning and delivering a number of key infrastructure projects, including the Autonomous Vehicle testing facility which was completed and became operational during the year. This project was significantly funded by external parties with this income now included within donations.

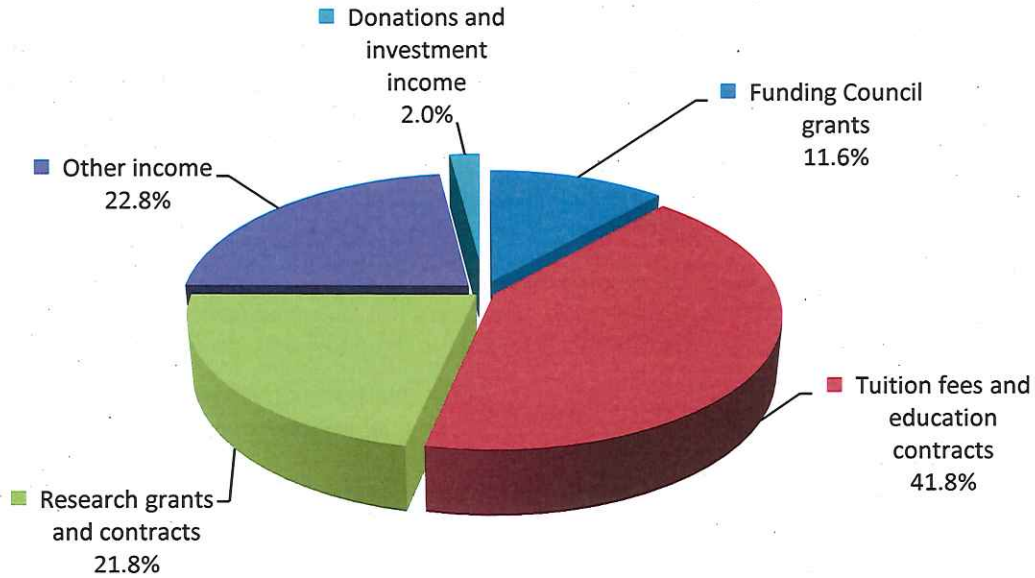
The statement of consolidated cash flow shows a decrease in cash of (£7,554,000). Net cash inflows from operating activities were £4,533,000. This was generated by changes in the working capital profile as shown on page 35.

Consolidated total reserves decreased by £4,551,000 (2017 – increase by £8,240,000) as explained in the statement of changes in reserves on page 32.

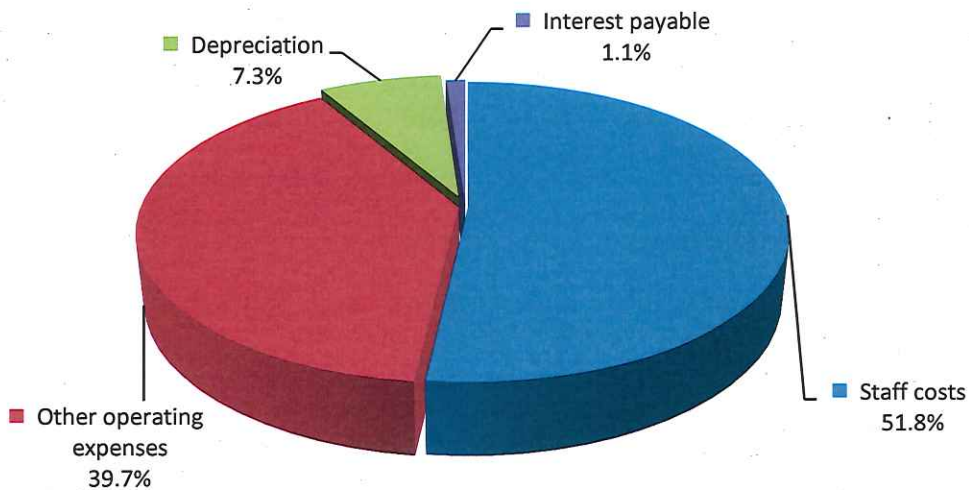
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 (continued...)

Results for the year and position at year end (continued...)

INCOME 2018



EXPENDITURE 2018



Principal risks and uncertainties

The University receives a smaller proportion of its income from HEFCE (this became the Office for Students and Research England from 1st April, 2018) 2017/18 - 11.6% (2016/17 - 11.9%) than the majority of the sector. This reflects the distinctive mission of Cranfield as a wholly postgraduate University. However, it also receives a significant amount of income from other organisations that are directly or indirectly impacted by the general state of public finances and the economy.

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Principal risks and uncertainties (continued...)

The BREXIT vote in June 2016 added significantly to the Universities' short and medium term risk profile as significant student numbers come from within the EU alongside EC research funding. Uncertainty has also been seen in the professional development market with companies continuing to hold back on training budgets until the actual BREXIT impacts start to become clearer.

As with other Higher Education Institutions, Cranfield is subject to decisions made by the Office for Students, Research England and other Government bodies. Cranfield has traditionally received significant specialist institution funding. Cranfield has continued to be deemed a world leading specialist institution by HEFCE in their 2015/16 review, but due to a reassessment of the funding of specialist institutions, funding was further reduced in 2017/18.

The University has been successful in developing a number of Masters programmes that have been aligned to the Government Apprenticeship Levy to enable employers to utilise their levies with Cranfield. There is the potential risk that a future Government review changes the regulations to the Apprenticeship levy.

The University is at risk from cost inflation, especially those related to employment costs. Pension costs continue to rise and a tight control of salary costs is vital to ensure the University is fit for the future. There is presently uncertainty regarding the funding of the sector wide University Superannuation Pension Scheme and proposals are presently being considered as to how the recovery plan will be funded and the cost implications this will have on scheme members.

Key Performance Indicators (KPI's):-

The University benchmarks its performance against the rest of the sector, where comparable information is available:-

| | Cranfield Actual | Cranfield Actual | Mean Average HEFCE funded HEI* Forecast |
|--|---------------------|---------------------|--|
| | 2018 | 2017 | 2015 |
| Income growth / (reduction) | (4.3%) | 0.0% | 5.2% |
| (Deficit)/surplus for year as a % of total income | (2.7%) | 4.7% | 5.0% |
| Staff costs before exceptional costs and USS pension provision movement as a % of total income | 53.3% | 50.1% | 52.6% |
| Cash flow from operating activities as a % of total income | 2.7% | (0.6%) | 8.4% |
| Net liquidity (excluding borrowings) as number of days expenditure | 12 | 9 | 122 |
| External borrowings as a % of total income | 13.8% | 13.4% | 26.2% |
| Discretionary reserves as a % of total income | 55.2% | 55.4% | 64.4% |

*Source: HEFCE Sept 2015 following the introduction of FRS 102 comparability is sometimes more difficult

The table above reflects that it has been a challenging year, however, the University retains a sound financial balance sheet. Of particular note, is that the University's financial policy of restricting borrowing only to finance capital projects with a strong direct income stream to make the repayments, positions Cranfield with significantly lower relative borrowings than the majority of the sector.

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Pensions

The University implemented the provisions of FRS 102 in 2015 and therefore continues to take onto the consolidated balance sheet the actuarial valuation of the pension liability in respect of its share of the Bedfordshire County Council Pension Fund. It also has to recognise on balance sheet the obligation for its share of the University Superannuation Scheme (USS). The USS has deficit recovery plans in place covering the period following each triennial valuation which include additional employer contributions to correct the shortfall in the scheme.

The total USS pension deficit across the sector has been calculated. The University share of the deficit has been estimated as at 31 July, 2018 and there is a net pension liability of £11,785,000 (2017 - £11,182,000) applicable to the University. Details are provided in Note 22.

The share of underlying assets and liabilities of the Local Government Pension Scheme (LGPS) is able to be identified as at 31st July, 2018 and there is a net pension liability of £49,170,000 (2017 - £54,404,000) applicable to the University. Details are provided in Note 22.

Trading activities of subsidiaries

The venture companies are financially independent from the University and are administered through Cranfield Group Holdings Ltd. In addition to these companies, there are other subsidiaries undertaking certain teaching, research and residential activities for the University.

Public Benefit report

The University is an exempt charity under the terms of the Charities Act 2011. The objects of the University are to:

- advance, disseminate and apply learning, knowledge and understanding with particular emphasis on the disciplines of the Sciences, Technology, Engineering and Management; and
- promote and encourage the transformation and application of that wisdom, knowledge and learning for the benefit of industry, the public services, and individuals and for the public benefit.

In reviewing the University's activities, Council has had due regard to the Charity Commission's guidance on the reporting of public benefit as amended in 2014. Cranfield makes a significant contribution to the majority of the specific examples of charitable activities highlighted in section 3 of the 2011 Act. These include:

- the advancement of education;
for example, through our developing suite of level seven postgraduate apprenticeship courses, known as Masterships™ ;
- the prevention or relief of poverty;
e.g. through our research and MScs in Future Food Sustainability and Food Chain Systems;
- the advancement of health or the saving of lives;
e.g. through the work of Cranfield's world-renowned Safety and Accident Investigation Centre, which was awarded the Queen's Anniversary Prize in 2011;

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- the advancement of citizenship or community development;
e.g. through sustained research and education in water sanitation and health, culminating in the award of the Queen's Anniversary Prize in 2015;
- the advancement of the arts, culture, heritage or science;
notably through over 70 years at the forefront of aerospace research and education, most recently recognised through HEFCE awarding funding for the £35 million Aerospace Integration Research Centre and the £65 million Digital Aviation Research and Technology Centre;
- the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity;
e.g. through the University's work on diplomacy and conflict resolution, including the MSc in International Defence and Security;
- the advancement of environmental protection or improvement;
as exemplified by the MScs in Environmental Water Management and Land Restoration and Reclamation;
- the promotion of the efficiency of the armed forces of the Crown, or of the efficiency of the police, fire and rescue services or ambulance services;
for example, through Cranfield's suite of MScs and executive education programmes on forensics.

Cranfield's mission is to create leaders in technology and management. We achieve this through our transformational research and through the quality of our postgraduate teaching.

Our activities are undertaken in support of the University's aims, as referenced in our Charter, and the strategic direction, as outlined in our Corporate Plan.

The University's Charter states:

"The University will be an institute of technology and a teaching, research and examining body, with power to grant Degrees.

The objects of the University are to:

- *advance, disseminate and apply learning, knowledge and understanding with particular emphasis on the disciplines of the Sciences, Technology, Engineering and Management;*
and
- *promote and encourage the transformation and application of that wisdom, knowledge and learning for the benefit of industry, the public services, and individuals and for the public benefit.*

In fulfilling these objects, the University will give particular attention to the educational needs of industry, commerce and the public services and of people with experience therein who can benefit from an extension of their higher education and thereby be prepared for positions of greater responsibility."

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Cranfield's Corporate Plan 2014-2019 'One University – shaping our future' outlines our four strategic priorities:

- To provide a premier learning experience that enhances the capabilities of individuals and their organisations.
- To be recognised for outstanding transformational research that meets the needs of business, government and wider society.
- To grow an efficient, effective and sustainable enterprise.
- To be renowned for our impact and influence - regionally, nationally and internationally.

During 2017/2018, 2,500 students have graduated from our unique postgraduate institution, their learning experience giving them the opportunity to join some of our distinguished alumni as leaders in their fields. Our alumni include Warren East, CEO of Rolls-Royce; John McFarlane, Chairman of Barclays; Omobola Johnson, Partner at Tlcom Capital and formerly Minister for Communication Technology in Nigeria; Sarah Willingham, Entrepreneur; Sir Charlie Mayfield, Chairman, John Lewis Partnership; Dr Andy Palmer, Chief Executive, Aston Martin Lagonda; and Dr Gareth Williams, Vice President, Head of Plant Quality, Broughton/Filton, Airbus.

Throughout 2017/2018, we have continued to develop new facilities that will further enhance the delivery of our mission:

- In October 2017, the £35 million Aerospace Integration Research Centre (AIRC) was officially opened. Funded by Rolls-Royce, Airbus, HEFCE and the University, the centre is home to Cranfield researchers and industrial partners with the aim of investigating ways of integrating advanced technologies and reducing time from academic innovation to industrial application. We are the only university in Europe that brings together major aerospace research facilities such as the AIRC with an operational airport and runway on one connected site.
- In October 2017, we announced that Saab is supplying Cranfield Airport with a new state-of-the-art digital control tower. The cutting-edge technology replicates what can be seen through the windows of a traditional air traffic control tower via a live feed of panoramic views across the airfield using HD cameras and sensors. It is due to be operational from December 2018.
- In March 2018, the new IMEC (Intelligent Mobility Engineering Centre) building was officially opened by His Royal Highness The Duke of Kent. IMEC will enhance Cranfield's position as one of the UK's leading centres for education, training and research for the rapidly growing intelligent mobility and transport systems sector. The facility will also provide a shared teaching space for our students, key business partners, and other local educational institutions that are focused on transport engineering systems and autonomous vehicle technologies.
- An intelligent mobility road has also opened on campus, a purpose-built experimental facility for the development of the precise quantification of autonomous and semi-autonomous vehicle performance.
- In April 2018, we were granted outline planning permission for a new Air Park at Cranfield Airport, which will help us to realise our ambition to develop a state-of-the-art airport for private jets and to help maintain the airport for its research objectives. Under the plans, the airport would have new

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aircraft hangars and an associated business terminal, new office space and a hotel. The Air Park will be developed over two separate phases, with the aim of completion in 2024.

- In June 2018, construction started on a new £3.2 million agri-informatics facility. The new facility will provide the UK with a centre of excellence in data science related to precision agriculture. The new facility will be the home of the National Reference Centre for Soils and associated Land Information System, LandIS. Construction will be completed in 2019.
- A new £65 million Digital Aviation Research and Technology Centre (DARTeC) will be built at Cranfield to spearhead the UK's research into digital aviation technology. The centre is due to open in early 2020 and will provide a collaborative research and technology environment and research facilities unprecedented in Europe.

During the year (March 2018), it was also announced that Milton Keynes Council had chosen Cranfield to be the lead higher education provider for a new university in Milton Keynes. Currently known as MK:U, the university will be designed as an education institution for the 21st century, delivering a distinctive STEM-focused (science, technology, engineering and mathematics) undergraduate curriculum in key areas including digital, cyber, autonomy, robotics and artificial intelligence.

Further afield, the official launch of Muscat University was held in Oman in November 2017. The new university has partnered with Cranfield, and with Aston University, to draw on our academics' expertise in air transport, supply chain logistics, energy systems, finance and entrepreneurship to deliver courses at the new university.

None of what we achieve as a University would be possible without the dedication and commitment of our staff to realising the ambitions of our institution:

- In November 2017, we were granted a Silver Employer Recognition award by the Ministry of Defence. The Employer Recognition Scheme (ERS) was launched in 2014 by the Prime Minister to recognise and reward UK employers that support veterans, military spouses and cadet instructors, as well as reservists. It recognises organisations that pledge, demonstrate or advocate support to the Armed Forces community, and share the values defined in the Armed Forces Covenant.
- We are proud as a University to champion the careers of our female academic and research staff. We have been awarded the Bronze Award from Athena SWAN. Through its award system, the Athena SWAN charter aims to advance equality and diversity in higher education and research.
- In June 2018, we achieved an outstanding double for the second year in a row with two of our engineers being named in the Telegraph's Top 50 Women in Engineering. Professor Emma Sparks, Head of the Centre for Systems Engineering, and Dr Fiona Charnley, Senior Lecturer in Circular Innovation, were both named in the list. Backed by the Women's Engineering Society (WES), the Top 50 Women in Engineering initiative aims to encourage female uptake into engineering roles and careers by celebrating the notable achievements made by women in the sector.
- In July 2018, we signed the Women in Aviation, Aerospace & Defence Charter. The charter is a commitment by the Department for Transport, the Department for Business, Energy and Industrial Strategy, the Ministry of Defence and signatory organisations, to work together to build a more balanced and fairer industry.

In February 2018, we were delighted to receive our fifth Queen's Anniversary Prize, which was presented at Buckingham Palace. The award was in recognition of our world-class excellence and achievement in

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research and education in large-scale soil and environmental data for the sustainable use of natural resources in the UK and worldwide. The Queen's Anniversary Prizes are awarded every two years to universities and colleges who submit work judged to show excellence, innovation, impact and benefit for the institution itself and for people and society generally in the wider world. They are the UK's most prestigious form of national recognition open to a UK academic or vocational institution.

As an institution, we aim to spread knowledge and learning not just to our learners and research partners but to the wider public:

- Throughout the year, our students, business partners and the wider public, including local schools, have benefited from active demonstrations of our transformational research.
- In August 2017, we celebrated the 10-year anniversary of Soil-Net – a free, online soil science resource for school pupils and teachers. Developed by Cranfield University's National Soil Resources Institute, and funded by the Department for Environment, Food and Rural Affairs (Defra), Soil-Net is an innovative soil education resource which has been used by over one and a half million people in over 200 countries and territories worldwide.
- As a sponsor of International Women in Engineering Day 2018, we play a strong role in promoting STEM careers to women. In June 2018, female students from schools across the region visited Cranfield to take part in interactive displays and tours of Cranfield's world-class facilities.

Employment of disabled persons

Applications by disabled persons for employment and for admission to courses of study or research are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of existing staff and students becoming disabled every effort is made to ensure that their employment or study with the University continues and that appropriate training and support is arranged. It is the policy of the University that the training, career development and promotion and opportunities to undertake study and research should, as far as possible, be identical for all staff and students.

Employee involvement

The University places considerable value on the involvement of its employees and on good communication with them. A regular newsletter is made available to all staff and separate supplements are published when the need arises. Staff are encouraged to participate in formal and informal consultation at University and School levels, sometimes through the membership of formal committees. In addition, information for staff is included on an intranet site.

Environmental issues

The University is committed to sustainable development by integrating environmental issues into all aspects of its work and management processes. Environmental responsibilities are met through the management of the University's campuses and premises, through its dealings with client groups and trading partners, through the design and delivery of its academic, research and professional services and through its interaction with the local community.

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Carbon Management Plan

The University has a target to reduce its Carbon emissions by 50% by 2020 compared with a 2005 baseline. From 2005 Carbon emissions were growing; however since the implementation of the plan in 2009 emissions have generally reduced and are now 34% lower than the 2005 level. Our carbon footprint has been restated for previous years in accordance with DEFRA Greenhouse Gas reporting guidelines which take account of changes in our estate and also national conversion factors.

| Year | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|------------|---------|---------|---------|---------|---------|---------|---------|
| Tonnes CO2 | 18,700 | 18,800 | 20,400 | 20,400 | 18,700 | 17,600 | 15,300 |

| Year | 2012/13 | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 |
|------------|---------|---------|---------|---------|---------|---------|
| Tonnes CO2 | 16,100 | 14,500 | 14,900 | 13,400 | 12,800 | 12,300 |

The decrease since 2007/2008 reflects the significant investment the University has put into energy saving initiatives such as a large Combined Heat and Power unit, a new Biomass boiler, improvements to the district heating system, a solar farm and energy efficient refurbishments to the real estate. This goes alongside significant efforts from "Green Teams" within the staff and student bodies to ensure sector best practice is employed wherever possible.

The emissions reported above include electricity, heating, process fuels and on site vehicle fuels for the whole University estate but excluding Shrivenham Campus. Reporting years are from August to July. Other transport emissions and emissions associated with waste and water are not included at present although there are plans to include these within the footprint for future reports. Further information on the Carbon Management Plan can be found on the University website.

Health and Safety

The University is committed to providing a safe and healthy environment by taking effective means to manage our risks and protect people from being harmed. There is a process of continuous improvement through a programme of rolling out OHSAS 18001 Health and Safety Management accreditation across the University in all areas of work and study. The University achieved full accreditation under OHSAS 18001 in July 2016.

Modern Slavery and Human Trafficking

The University is committed to improving practices to combat slavery and human trafficking and supports the UK Government's approach to implementing the UN Guiding Principles on Business and Human Rights.

In implementing this approach the University supports the Base Code of the Ethical Trading Initiative. This Base Code is an internationally recognised code of labour practice requiring that:

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working conditions are safe and hygienic
- Child labour shall not be used
- Working hours are not excessive
- No discrimination is practiced
- Regular employment is provided
- No harsh or inhumane treatment is allowed

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Payment of creditors

It is the University's policy to obtain the optimum terms for all business and, thus, there is no single policy as to the terms used. The University looks to use small and local suppliers where appropriate and looks to pay them within two weeks of invoice wherever possible. In agreements negotiated with other suppliers, the University endeavours to include and abide by specific payment terms in accordance with best commercial practice.

Trade Union Facility Time

Background

The Trade Union Facility Time data, shown below, has been prepared in accordance with the requirement under Section 13 of the Trade Union Act 2016. The data has been collated and extracted from the HR & Payroll database and covers the 12 month "relevant period", which is the 12 months from 1 April to 31 March every year, with the first period being from 1 April 2017 to 31 March 2018.

At Cranfield there are three Unions who are recognised for consultation and negotiation purposes, these being UCU, Unite and Unison.

Table 1 - Relevant union officials

Total number of our employees who were relevant union officials during the relevant period?

| Number of employees who were relevant union officials during the relevant period | Full-time equivalent employee number |
|--|--------------------------------------|
| 20 | 18.6 |

Table 2 - Percentage of time spent on facility time

Number of employees who were relevant union officials employed during the relevant period spent a) 0%, b) 1%-50%, c) 51%-99% or d) 100% of their working hours on facility time?

| Percentage of time | Number of employees |
|--------------------|---------------------|
| 0% | 6 |
| 1-50% | 14 |
| 51%-99% | 0 |
| 100% | 0 |

Table 3 - Percentage of pay bill spent on facility time

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Figures determining the percentage of the total pay bill spent on paying employees who were relevant union officials for facility time during the relevant period.

| | |
|--|--------------------------------|
| Provide the total cost of facility time | £43,113 |
| Provide the total pay bill | £84,006,000¹ |
| Provide the percentage of the total pay bill spent on facility time, calculated as: (total cost of facility time ÷ total pay bill) x 100 | 0.05% |

Table 4 - Paid trade union activities

As a percentage of total paid facility time hours, the number of hours spent by employees who were relevant union officials during the relevant period on paid trade union activities?

| | |
|--|-------------|
| <i>Time spent on paid trade union activities as a percentage of total paid facility time hours calculated as: (total hours spent on paid trade union activities by relevant union officials during the relevant period ÷ total paid facility time hours) x 100</i> | 100% |
|--|-------------|

¹ This excludes £300,000 for the apprenticeship levy

Outlook for 2018/2019

Cranfield will continue to develop around its thematic offerings in Aerospace, Defence and Security, Energy and Power, Environment and Agrifood, Management, Manufacturing, Transport Systems and Water, supported by the professional service units.

The budgeted operating surplus for 2018/19 is based on increasing the numbers of international students and the underlying net fee income as evidenced by the significant increases in acceptances from students for the 2018/19 academic year. Costs will continue to be managed carefully. These activities are forecast to enable the University to get back towards the operating surplus targeted in the five year corporate plan.

New educational initiatives commencing in 2018/19 include the further development of a suite of Masterships™ programmes to utilise the Apprenticeship Levy; the first example was the Executive MBA in collaboration with Grant Thornton and this will be followed by MSc's in Strategic Leadership, Digital and Retail Banking and Management and Leadership. Cranfield are continuing to work with Muscat University to grow a suite of MSc courses in Oman.

With regard to capital expenditure, Cranfield has continued to be successful in winning high profile investment bids for the development of facilities to support the Digital Airport of the Future facility on the Cranfield campus with £60 million of the £65 million coming from Government and commercial funding. The first facilities under this project will become operational during 2018/19.

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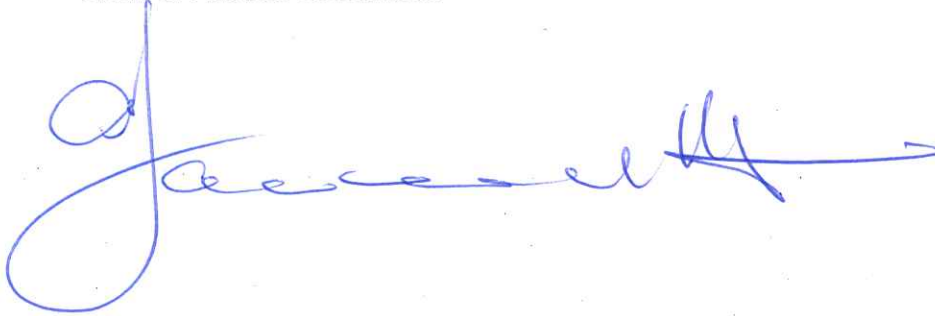
Conclusion

The University faced a challenging financial year with a significant reduction in staff under the Fit For the Future scheme and changes to the future provision and delivery of the MoD teaching contract. This has been offset by a significant increase in the research order book and by the successful introduction of Masterships™ courses and the use of International Agents to increase the international student numbers. There remains uncertainty across the sector around European student numbers and research income following the BREXIT vote.

The University has had further success with its large infrastructure funding bids to support its Estates strategy and the Corporate Plan and is confident that, through its thematic approach to research, education and executive development, it will continue to add significant value for its students, business and government partners and for the wider public benefit.

C P Fairweather MA FCA
Chair of Finance Committee

15th November, 2018



CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

The University is committed to following best practice in all aspects of corporate governance and is in full compliance with the CUC Higher Education Code of Governance. The following statement is given to enable readers of the financial statements to obtain a better understanding of the legal structure of the University and the governance procedures applied by the University's Council.

In March 2013, Her Majesty The Queen in Council approved revisions to the University's Charter and Statutes. The primary impact of these revisions on governance was to make the University Council the unambiguous governing body for the University, in line with the governance guidelines of the Higher Education Funding Council for England. Following the approval of the Charter and Statutes, Council approved a revised set of Ordinances and Senate approved new Regulations; together, the Charter, Statutes, Ordinances and regulations make up the University Laws.

Council's functions, as articulated in the Charter, are to: be ultimately responsible for the affairs of the University; determine the strategic direction of the University; ensure the effective management and control of the University's affairs, property and finances; determine the structure, staffing and overall composition of the University; appoint the Pro-Chancellor; and appoint and dismiss the Vice-Chancellor.

The principal academic and administrative officer of the University is the Chief Executive and Vice-Chancellor who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal Financial Memorandum between the University and the Higher Education Funding Council for England and the new Office for Students terms and conditions of funding, the Vice-Chancellor is the accountable officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

The University endeavours to conduct its business in accordance with the relevant parts of the UK Corporate Governance Code 2010 issued by the Financial Reporting Council. Whilst the University, being an independent corporation incorporated by Royal Charter and having exempt charitable status, does not fall within the scope of the Code, the Council is satisfied that the University has complied throughout the period with those provisions which can be applied to Universities.

The matters specially reserved to the Council for decision are defined by the University Laws and by custom in line with the Financial Memorandum with the Higher Education Funding Council for England and the new Office for Students terms and conditions of funding.

The Council has a majority of members from outside the University, (described as independent members), from whom the Chair and Deputy Chair must be drawn. Also included in its membership are staff of the University and a member nominated by the student body. The composition of the Council and the procedures for appointment of members, their tenure and removal from office, are determined by the Statutes of the University.

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CORPORATE GOVERNANCE

(continued ...)

The Council meets at least four times a year and has four standing Committees, Finance, Nominations, Remuneration and Audit. Each of these Committees is formally constituted with terms of reference and comprises mainly independent members of the Council.

- **Finance Committee** - meets at least four times a year and, inter alia, recommends to the Council the University's annual revenue and capital budgets and monitors performance quarterly in relation to the approved budgets. The Committee also reviews the University's annual financial statements for reporting to the Council.

Attendance of members during the year is outlined below:

| | No. Of Meetings In Year | No. Of Meetings Entitled to Attend | No. of Meetings Attended |
|---------------------|----------------------------|---------------------------------------|-----------------------------|
| Sir David Arculus* | 4 | 3 | 1 |
| Mr Colin Day | 4 | 4 | 3 |
| Mr Paul Fairweather | 4 | 4 | 4 |
| Mr Iain Ferguson | 4 | 3 | 2 |
| Sir Peter Gregson | 4 | 4 | 4 |
| Mr Dougie Hunter* | 4 | 3 | 1 |

*Sir David Arculus and Mr Dougie Hunter retired from Council and Finance Committee on 31 May 2018.

- **Nominations Committee** - considers nominations for vacancies in the independent membership of Council under the relevant Statute and makes recommendations to the Council for such appointments.
- **Remuneration Committee**

Terms of Reference for the Remuneration Committee

The Remuneration Committee at Cranfield, established by Council, has delegated responsibility to determine the Executive Reward Strategy, setting and reviewing the salaries and other emoluments, terms and conditions and where appropriate, severance payments of the Executive, to include the following members of staff:

- a. The Vice-Chancellor and Chief Executive;
- b. Members of the University Executive;
- c. Such other members of staff as decided by Council.

Remuneration Committee also have oversight of the remuneration of all staff earning £100,000 or more.

The primary concern of the Remuneration Committee is the needs of the University, but it will take note of comparable information on salaries and emoluments and conditions of service in the University sector and wider market data.

Remuneration Committee Membership

The membership of the Remuneration Committee from 25 July 2018 comprise the following members of Council:

- The Deputy Chair of Council (Chair) - Mr Iain Ferguson, Wilton Park.
- The Chair of the Finance Committee - Mr Paul Fairweather - Former Partner of PricewaterhouseCoopers LLP and Business Fellow, The Honourable Society of Gray's Inn.

CRANFIELD UNIVERSITY
CORPORATE GOVERNANCE
(continued ...)

- Miss Caroline Carter, former partner of Ashurst LLP.
- Miss Alice Hynes, Director of APC Futures Ltd and former University Registrar and Clerk to the Board.

Advisory and secretarial services for the Committee are provided by the Director of Human Resources and their nominated representative.

Remuneration Committee meets at least twice a year and any three members present will constitute a quorum.

The Pro-Chancellor, Dame Deirdre Hutton, Chair of the Civil Aviation Authority is in attendance at the Remuneration Committee meeting, but is not a member.

The Chief Executive and Vice-Chancellor is in attendance at the Remuneration Committee for consideration of remuneration for his/her direct reports, but is not present for the discussion of his/her remuneration.

Attendance of members between July 2017 and July 2018 is detailed below:

| | No. Of Meetings (Jul17-Jul18) | No. Of Meetings Entitled to Attend | No. of Meetings Attended |
|----------------------|----------------------------------|---------------------------------------|--------------------------------|
| Mr Paul Fairweather | 2 | 2 | 2 |
| Mr Iain Ferguson | 2 | 1 | 1 |
| Dame Deirdre Hutton* | 2 | 2 | 2 |
| Mrs Louise Redmond* | 2 | 2 | 2 |

*Dame Deirdre Hutton resigned from Remuneration Committee on 26 October 2017. Mrs Louise Redmond retired from Council and Remuneration Committee on 31 May 2018.

Key decisions taken in from July 2017 to July 2018

July 2017

The Remuneration Committee reviewed and agreed the Executive's University and personal objectives and KPIs for 2017/18.

The Remuneration Committee also reviewed the Audit Report on Recognition Awards and Additional Posts. The Committee wished to continue to have visibility and scrutiny of these awards which are subject to an Equality Impact Assessment. The Committee also reviewed the Equal Pay Report and actions to address the gender pay gap.

October 2017

The Remuneration Committee reviewed progress towards agreed corporate and individual objectives for the Executive. Performance against the corporate scorecard was assessed at 2 out of 10. Where individual performance merited it, a limited number of small bonuses and one basic salary increase were agreed.

Closing the pay differentials with other senior staff due to the Executive receiving no cost of living increase was discussed, and it was decided that there should be no change this year.

Pay arrangements in line with all other staff were agreed for the Vice-Chancellor & Chief Executive.

To assist the above decision making, the Committee received the following background documents:

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(continued ...)

- Summary salary report on the Vice-Chancellor and Chief Executive and other members of Executive detailing basic salary and other emoluments.
- Performance and development review documentation from the Vice-Chancellor on members of the Executive, detailing individual and corporate scorecards and a qualitative performance assessment against wider behavioural characteristics.
- Performance and development review documentation for the Vice-Chancellor and Chief Executive undertaken by the Pro-Chancellor and Chair of Council.
- A report from Human Resources providing benchmark pay data (this includes a summary of the Committee of University Chairs report on Vice-Chancellors pay, the Universities and Colleges Association Senior Staff Remuneration Survey).
- Summary report on basic salary and other emoluments for the senior management team and staff earning over £100,000.

Approach to Remuneration

The University aims to balance the financial climate and the increased external focus on senior pay, with the need to motivate our key talent, rewarding their contribution and performance appropriately to achieve the University's Strategic objectives.

The core principles for pay and reward, informed by HayKornferry, guides the decisions taken by the Committee.

- Enable the recruitment, retention and motivation of talented and high performing leaders;
- Communicate the values of the University – in particular reinforcing the importance of collective working, recognising the achievement of strategic goals and creating a culture of inclusivity
- Secure value for money for the University and its stakeholders
- Ensure affordability and protect the University's reputation.

There are three elements to the Executive Team pay and reward package:-

| | |
|----------------------------|---|
| Base pay | The salary element of the total remuneration package is set to reflect the market rate for the role and the track record of the individual. It is reviewed on an annual basis. No member of the Executive receives the cost of living increase on an automatic basis, this is reviewed on an annual basis by the Remuneration Committee, taking into account the University's performance during any year. |
| Incentive Scheme | The incentive scheme offers the opportunity for a payment of up to 20% of base pay (non-consolidated), based on achievement of corporate objectives and on individual performance. Reward is linked to the achievement of agreed performance indicators aligned to the delivery of the Corporate Plan and a qualitative assessment of individual contribution, wider contribution to the Executive Team. |
| Pension and other benefits | Members of the Executive are offered membership of Universities Superannuation Scheme (USS). In line with all other employees, the Executive are eligible for a range of benefits to include life cover (provided automatically through the pension scheme). Where any member of staff has reached or is approaching their Lifetime Allowance, the University, can make a Payment in Lieu of Pension (PILP) - 12% of basic salary, plus an optional USS Life Assurance cost of 2.1% of basic salary. This payment does not attract bonus or other benefits based on basic salary. |

CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

(continued ...)

Senior Salaries

Salaries are reviewed annually. The University's current pay recognition policy includes the following options for recognising and rewarding outstanding evidence-based achievements

- Accelerated incremental award
- Award of a salary in the high performance zone on the basis of sustained performance
- One off non- consolidated recognition awards for individual or team performance
- Non-consolidated Bonus payments for senior managers, where there are clear results-based targets relating to business generation and income.

PVCs and the COO chair local pay award bodies to review and agree pay recommendations from line managers, ensuring fairness and consistency across the relevant School or service area. The CEO and VC, supported by HR, reviews all recommendations to ensure fairness and consistency across the University. The University's internal auditors carry out sample checks of pay awards to ensure that the appropriate criteria have been applied and that the correct documentary evidence is available to support such awards.

Professorial roles

Professorial salary scales are reviewed annually through the normal pay review process in line with other staff, with 'cost of living' increases being applied. Professorial pensionable remuneration is determined through the Professorial Salary Review mechanism which is informed by international peer review. Market rate supplements may be applied in disciplines where there is clear benchmarked data to substantiate it.

The overall performance of Professors is assessed through annual Performance and Development Reviews.

For external appointments to Professor, the overall professorial band is agreed by the appointing panel, with the actual salary being agreed between the Pro Vice-Chancellor (School) and the CEO and VC.

Remuneration of the Chief Executive and Vice-Chancellor

Details of the remuneration for the CEO and VC are summarised in note 6 of the Financial Statement.

The remuneration received by the CEO and VC in 2017/18 included a base salary of £285,714. He advised the Chair of the Remuneration Committee in October 2017 that he did not wish to be considered for any bonus or salary increase for the forthcoming year. The Remuneration Committee upheld this request.

The CEO and VC is in receipt of a PILP allowance on the same terms as other members of staff.

The CEO and VC is required to reside in Cayley Lodge, which is regularly used for VIP business and regional engagement.

Pay multiple calculation

| | 2018 | 2017 |
|---|------|------|
| Vice-Chancellor basic salary multiplier | 7.85 | 7.72 |
| Vice-Chancellor total remuneration multiplier | 7.71 | 8.78 |

CRANFIELD UNIVERSITY
CORPORATE GOVERNANCE
(continued ...)

Severance Payments

The University's principle is to manage all departing staff fairly and equitably, taking into account the circumstances of their departure. Where restructurings occur, impact assessments are undertaken to ensure there are no biases on any protected characteristic.

Members of the Executive, as for all other staff, are entitled to be paid their contractual base salary and contractual benefits, during any notice period. In exceptional circumstances, the University has the discretion to make a lump sum payment, as pay in lieu of notice (PILON).

All Executive members (including the CEO and VC) have permanent contracts and have notice periods of 6 months.

Typically, no additional enhanced payments are made to compensate members of the Executive when their employment terminates, unless the employment ends by means of redundancy. In exceptional circumstances, a settlement agreement may be put in place and the University may make payments it considers reasonable in settlement of any potential litigation.

During 2017/18, one member of the Executive left during the year to take up another appointment; there was no severance payment. A further member of the Executive left under the 'Fit for the Future' restructuring scheme; severance pay was awarded on the same terms that were available to all staff leaving under the scheme.

Payment of Directorships, Consultancies and Outside Work

The University recognises the benefits that outside work whether voluntary or remunerated can bring to both employees and the University.

All employees (to include the Executive) must seek written approval from the relevant Senior Line Manager (PVC, COO or CEO and VC). For the CEO and VC approval is sought from the Pro-Chancellor. The treatment of remuneration received from such activities is considered on a case by case basis as part of the approval process. It is the responsibility of those undertaking external work to ensure that it is fully declared in the Register of Interest.

- **Audit Committee** - meets on at least three occasions annually to review the work of the internal and external auditors. The Committee considers detailed audit reports, together with recommendations, for the improvement of the University's systems of internal control, governance, risk management and value for money, as well as management's responses and implementation plans.

Attendance of members during the year is outlined below:

| | No. Of Meetings In Year | No. Of Meetings Entitled to Attend | No. of Meetings Attended |
|---------------------|----------------------------|---------------------------------------|-----------------------------|
| Mr Anthony Carey | 4 | 4 | 4 |
| Mrs Louise Redmond* | 4 | 3 | 3 |
| Dr Maxine Mayhew | 4 | 4 | 2 |
| Miss Alice Hynes | 4 | 4 | 4 |
| Mr Bill Thomas | 4 | 4 | 1 |

* Mrs Louise Redmond retired from Council and Audit Committee on 31 May 2018.

Most independent members of the Council do not receive any payment, apart from the reimbursement of expenses, for the work they undertake for the University. However, certain members are remunerated for specific responsibilities other than those of the Council membership.

CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

(continued ...)

The report of the Chair of Finance Committee is given on pages 2 to 12 and the responsibilities of the Council are outlined on page 22. The annual financial statements are presented in a format which is in accordance with applicable Accounting Standards and the 2015 Statement of Recommended Practice - Accounting for Further and Higher Education.

The Council is also responsible for the University's internal control system and for monitoring its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve the University's overall objective and mission, as well as its annual strategic aims. It can only provide reasonable, but not absolute, assurance against any material misstatement or loss. The key features of the control system are:-

- **Risk management** – whilst it is neither possible nor desirable to eliminate risk from the University's activities, there is an on-going process for the recognition, assessment and management of all significant opportunities and risks. This process has been in place for the year and up to the date of approval of the annual financial statements. The process is reviewed annually by the Audit Committee on behalf of the Council. The Audit Committee reports annually to the Council on its review. Exposure and control analyses, including mitigating factors and counter measures, are prepared annually and are monitored by key performance indicators and controls. The results from these reviews inform the planning, reporting and budgetary control processes. The management of each significant risk is assigned to one or more individuals and built into personal objectives as part of the staff development and appraisal procedures, which identify training needs. Staff generally are asked to report perceived significant risks.
- **Control environment** – clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments are established. There is a Financial Manual, detailing financial controls and procedures which is approved by the Council as well as other management policies. Compliance with the Financial Manual is a requirement included in contracts of employment. The approach to internal control is risk based and embedded in effective management systems.
- **Information and control systems** – the University has a comprehensive medium and short-term planning process, supplemented by detailed annual revenue, capital and cash flow budgets. There are 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 Council. There are regular reviews of operating results involving variance reporting and updates of estimated out-turns. In relation to academic information and control systems, the University's Senate, Education Committee, Research Committee and Directors of Education and Research in the Schools oversee detailed processes to maintain and control the quality and standards of the University's academic work.
- **Monitoring system** – the effectiveness of the information and internal control systems and control environment are monitored by management review, the internal audit function and the Audit Committee, on behalf of the Council. As part of their audit responsibilities, the external auditors also provide reports to the Audit Committee on the operation of aspects of the University's internal control system.

On the basis of the above control system, procedures have been in place for the whole financial year to enable a full statement on internal control to be made for the year and up to the date of the approval of the Financial Statements.

CRANFIELD UNIVERSITY

PRIMARY RESPONSIBILITIES OF COUNCIL

The Council is the supreme governing body of the University. Its principal responsibilities are based on the Model Statement taken from the Committee of University Chairs (CUC) Higher Education Code of Governance (2014), adapted to reflect the powers and responsibilities that Council derives from the University Laws. These responsibilities are to:

- approve the mission and strategic vision of the University, the long-term strategic and business plans including key performance indicators, and to ensure that these meet the interests of stakeholders;
- appoint, on the recommendation of a Joint Appointing Committee of Council and Senate, the Vice-Chancellor as Chief Executive of the University and to establish the conditions of appointment and the arrangements for monitoring their performance;
- be responsible for the removal of the Vice Chancellor for good cause in accordance with the University Laws;
- delegate authority to the Vice-Chancellor for the academic, corporate, financial, estate and human resource management of the institution;
- establish and keep under regular review the policies, procedures and limits within such management functions as will be undertaken by and under the authority of the Vice-Chancellor;
- ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest;
- ensure that processes are in place to monitor and evaluate the performance and effectiveness of Cranfield University against the plans and approved key performance indicators, which will, where possible and appropriate, be benchmarked against other comparable institutions;
- establish processes to monitor and evaluate the performance and effectiveness of the Council;
- conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life;
- safeguard the good name and values of the institution;
- appoint a Secretary to Council, on the recommendation of a Joint Appointing Committee of Council and Senate and to ensure that if the person appointed has managerial responsibilities in the University, there is an appropriate separation in the lines of accountability;
- be the employing authority for all staff in the University and to be responsible for ensuring the establishment of a human resources strategy;
- be the principal financial and business authority of the University, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate;
- be the University's legal authority and, as such, to ensure that systems are in place for meeting all the University's legal obligations, including those arising from contracts and other legal commitments made in the University's name;

PRIMARY RESPONSIBILITIES OF THE COUNCIL

(continued ...)

- receive assurance that adequate provision has been made for the general welfare of students;
- act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the University; and
- ensure that the University's Laws are followed at all times and that appropriate advice is available to enable this to happen.

Members of Council

The following members served throughout the period from 1st August 2017 to 15th November 2018 unless otherwise stated:

| Name | Sub-Cttee Mbrship* | Position | Period |
|------------------------------|--------------------|-----------------------------------|--|
| Dame Deirdre Hutton* | R, N, | Pro-Chancellor & Chair of Council | |
| Baroness Young of Old Scone* | | Chancellor | |
| Professor Sir Peter Gregson* | F, R, N | Chief Executive & Vice-Chancellor | |
| Mr Ali Alderete | | | until 30 June 2018 |
| Sir David Arculus | F | | until 31 May 2018 |
| Professor Graham Braithwaite | | | |
| Mr Anthony Carey | A | Chair of Audit Committee | |
| Mrs Caroline Carter | F,R | | from 1 September 2017 |
| Mr Colin Day | F | | |
| Mr Paul Fairweather | F,R | Chair of Finance Committee | |
| Mr Iain Ferguson | F,R,N | Deputy Chair of Council | |
| Mr Dougie Hunter | F | | until 31 May, 2018: re-elected 25 June 2018 |
| Miss Alice Hynes | A, R | | from 25 June 2018 |
| Mr Mark Lewis | | | until 25 April 2018 |
| Mrs Moni Mannings | N | | |
| Dr Maxine Mayhew | A,N | | |
| Mrs Louise Redmond | A | | until 31 May 2018 |
| Professor Lynette Ryals | | | |
| Professor Emma Sparks | | | from 25 June 2018 |
| Miss Nithya Subramanian | | | from 1 July 2018 |
| Mr Bill Thomas | A | | |
| Dr Christine Thompson | | | |

*Ex-officio

A – Audit Committee Member, F – Finance Committee Member, N- Nominations Committee Member, R – Remuneration Committee Member

The Council is required to present audited financial statements for each financial year and for keeping proper accounting records which disclose with reasonable 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 Statutes of the University, the 2015 Statement of Recommended Practice - 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 Council of Cranfield University, the 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 the Group and of the surplus or deficit and cash flows for that year.

PRIMARY RESPONSIBILITIES OF THE COUNCIL

(continued ...)

In causing the financial statements to be prepared, 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; and
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken reasonable steps to:

- ensure that funds from the Higher Education Funding Council for England & Office for Students are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and the new Office for Students terms and conditions of funding and any other conditions which the Funding Council or Office for Students 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 the Group and prevent and detect fraud; and
- secure the economical, efficient and effective management of the University's resources and expenditure.

INDEPENDENT AUDITOR'S REPORT TO THE COUNCIL OF CRANFIELD UNIVERSITY

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Cranfield University ("the University") for the year ended 31st July 2018 which comprise the consolidated statement of comprehensive income and expenditure, consolidated statement of changes in reserves, balance sheets, statement of consolidated cash flows and related notes, including the accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31st July, 2018, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*; and
- meet the requirements of the Accounts Direction dated 19 June 2018 issued by the Office for Students.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The Council is responsible for the other information, which comprises the Operating and Financial review and Corporate Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work, we have not identified material misstatements in the other information.

Council responsibilities

As explained more fully in their statement set out on page 21, the Council is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent 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 it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

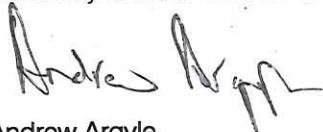
We are required to report on the following matters under the Office for Students and Research England Audit Codes of Practice issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation;
- income has been applied in accordance with the University's Statutes;
- funds provided by the Office for Students and Research England have been applied in accordance with these conditions and the terms and conditions attached to them; and
- 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.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Council, in accordance with the Charters, Statutes or Ordinances of the institution. Our audit work has been undertaken so that we might state to the Council 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 Council for our audit work, for this report, or for the opinions we have formed.



Andrew Argyle
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

28 November 2018

CRANFIELD UNIVERSITY

PRINCIPAL ACCOUNTING POLICIES

1. Basis of accounting and 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 Standards (FRS 102). The University is a public benefit entity and therefore has applied the relevant public benefit requirements of FRS 102. The financial statements are prepared in accordance with the historical cost convention (modified by the revaluation of land fixed assets). The following exemption available under FRS 102 has been applied to these financial statements:

- Disclosures in respect of transactions with wholly owned subsidiaries.

2. Basis of consolidation

The consolidated financial statements include the financial statements of the University and all its subsidiaries prepared up to the end of the financial year. They do not include the financial statements of student associations as it is considered the University has limited financial interest and no control or significant influence over policy decisions.

3. Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. The resulting exchange differences are reflected in the income and expenditure account for the financial year.

4. Recognition of income

Income from the sale of goods and 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. Other income received in relation to the utilisation of the university estate is recognised in accordance with the terms of the underlying transaction.

Tuition fee income is stated gross of any expenditure over the period in which the students are studying. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Investment income is credited to the Consolidated Statement of Comprehensive Income and Expenditure on a receivable basis.

(1) Grant Funding

Grant funding including Funding Council block grant, research grants from government sources, 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.

(2) 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

CRANFIELD UNIVERSITY

PRINCIPAL ACCOUNTING POLICIES

(continued...)

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 applied to the individual endowment fund.

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

1. Restricted donations – the donor has specified that the donation must be used for a particular objective.
2. 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.
3. 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
4. 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.

(3) Capital grants

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

5. Research and development

Expenditure on research and development is charged to the income and expenditure account in the year in which it is incurred

6. Tangible fixed assets

(1) Land and buildings

Land is stated at valuation and is revalued triennially. The basis of valuation is open market value for existing use, and in the case of the technology park, open market value with vacant possession. The most recent valuation was carried out as at 31st July, 2016 by Gerald Eve LLP. Freehold land is not depreciated as it is considered to have an indefinite useful life. Where land is held for resale and a conditional sale agreement is in place at the year end the land is revalued to the anticipated net proceeds and retained in fixed assets.

Freehold and leasehold buildings are stated at cost and depreciated over their expected useful lives or the life of the lease, whichever is shorter. Where there is a permanent reduction in value, provision is made in the financial statements.

Where buildings are acquired with the aid of specific grants, they are capitalised and depreciated as above.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

(2) Equipment

Equipment costing less than £5,000 per individual item or group of related items is written off in the year of acquisition. All other equipment is capitalised at cost and depreciated over its expected useful life.

Where equipment is acquired with the aid of specific grants or gifts, it is capitalised and depreciated as above.

(3) Depreciation

Depreciation is calculated on the original cost of the assets at the following rates:-

| | |
|-----------------------|-------------------------|
| Buildings | 2% - 5% per annum |
| Fixtures and fittings | 10% per annum |
| Equipment | 20% - 33.33 % per annum |
| Plant and machinery | 5% - 25% per annum |

7. Leases

Leasing agreements that transfer to the University substantially all the benefits and risks of ownership are considered to be finance leases. All other leases are operating leases.

Fixed assets held under finance leases and the related lease obligations are recorded in the balance sheet at the fair value of the leased assets at the inception of the lease. The excess of lease payments over recorded lease obligations is treated as finance charges which is amortised over each lease term to give a constant rate of charge on the remaining balance of the obligations.

Rental costs under operating leases are charged to expenditure over the periods of the leases.

8. Investments

- (1) Non current asset investments are held on the Balance Sheet at amortised cost less impairment.
- (2) Investment in subsidiaries is included in the balance sheet at cost, less any provisions for impairment.

9. Stock

Stock is valued at the lower of cost and net realisable value

10. Work in progress

Work in progress is stated at cost plus attributable overheads less provisions for any known or anticipated deficits and payments on account receivable.

CRANFIELD UNIVERSITY

PRINCIPAL ACCOUNTING POLICIES

(continued...)

11. Taxation status

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and as such is listed as a charity within the meaning of Paragraph 1 of Schedule 6 to the Finance Act 2010. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Sections 472–488 of the Corporation Tax Act 2010 and Section 256 of the Taxation of Chargeable are applied to exclusively charitable purposes.

Most of the University's principal activities are exempt from Value Added Tax ('VAT'), but certain activities and other ancillary supplies and services are liable to VAT at various rates. Expenditure includes VAT charged by suppliers to the University where it is not recoverable and is likewise included in the cost of fixed assets.

Commercial trading activities undertaken by the University are operated through its subsidiary companies. This income will attract applicable VAT and the profits are liable to Corporation Tax. However, the taxable profits made by these companies are covenanted to the University and paid under Gift Aid, to the extent that the companies have distributable reserves, which negates that liability.

12. Deferred taxation

Deferred taxation is recognised as a liability or asset if transactions or events have occurred by the balance sheet date that give rise to an obligation to pay more taxation, or a right to pay less taxation, in future. An asset is not recognised to the extent that the transfer of economic benefits in future is uncertain. Deferred tax assets and liabilities recognised are not discounted.

13. Maintenance of premises

The cost of all maintenance is charged to the income and expenditure account as incurred. Provisions are made for dilapidation of leasehold property where an appropriate obligation exists.

14. Pension schemes

The two principal pension schemes of the University's employees are the Universities Superannuation Scheme (USS) and the Local Government Pension Scheme (LGPS) administered by Bedfordshire County Council.

Details of the schemes are included in Note 22. For defined benefit schemes, pension costs are assessed on the latest actuarial valuations of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services.

15. Provisions

Provisions are recognised when the University has a present legal or constructive obligation as a result of a past event and 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.

16. Going concern

The University considers that it has sufficient financial resources and is confident that its future income streams will maintain these resources. Council believe that the University is well placed to effectively manage its business risks, despite the current uncertain economic situation.

Council have a reasonable expectation that the University has adequate resources to continue operating in existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

17. **Significant accounting entries and judgements**

In the process of applying these accounting policies, the University is required to make certain estimates, judgements and assumptions that management believe are reasonable based on the information available. These are reviewed on a regular basis by the University's senior management team. Significant estimates and material judgements used in the preparation of the financial statements are as follows:

Recoverability of debtors

The provision for doubtful debts is based on our estimate of the expected recoverability of those debts. Assumptions are made based on the level of debtors which have defaulted historically, coupled with current economic knowledge. The provision is based on the current situation of the customer, the age profile of the debt and the nature of the amount due.

Valuation of land

Valuations are undertaken every three years by an independent external team of chartered surveyors. This is then updated annually by senior management based on the current economic developments and other factors that may be considered to have an impact on the rental yield going forward.

Provisions

Management apply judgement to arrive at the best estimate for any obligation required. The amount recognised as a provision is management's best estimate of the present value of the amount required to settle the obligation. To arrive at this amount management assess the likelihood and extent of any future settlement and make judgements based on these.

Retirement benefit obligations

The University contributes to the Local Government Pension Scheme (LGPS) administered by Bedfordshire County Council which is accounted for as a defined benefit scheme. The recognised liability is based on the valuation provided by professionally qualified independent actuaries which is based on a number of assumptions. These include the future cash flows of the scheme, the discount rate used, the pensionable salary growth going forward and proposed price inflation. Further details can be found in note 22. Management reviews the assumptions made to derive the provisions recorded in the balance sheet to ensure that they are reasonable.

The University also operates within the Universities Superannuation Scheme ('USS') which is accounted for as a defined contribution scheme since insufficient information is available to identify the University's share of the underlying assets and liabilities. As the University is contractually bound to make deficit recovery payments to USS, this is recognised as a liability on the balance sheet. The USS deficit recovery plan defines the deficit payment required as a percentage of future salaries until 2031. These contributions will be reassessed within each triennial valuation of the scheme. The provision is based on management's estimate of expected future salary inflation, changes in staff numbers and the prevailing rate of discount.

Revenue recognition

Revenues are subject to judgement over when and by how much revenues should be recognised in the financial statements. This includes determining when performance criteria have been met, recognising research and other funding revenues in line with expenditure once a right to the funding is deemed to have arisen, and determining the revenues associated with partially delivered courses and training where the activities have not been fully completed at the reporting date.

CRANFIELD UNIVERSITY

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME AND EXPENDITURE

FOR THE YEAR ENDED 31ST JULY, 2018

| | Notes | CONSOLIDATED | | UNIVERSITY | |
|--|-------|-----------------|----------------|-----------------|----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | | £'000 | £'000 | £'000 | £'000 |
| Income | | | | | |
| Funding Council grants | 1 | 19,609 | 20,975 | 19,609 | 20,975 |
| Tuition fees and education contracts | 2 | 70,461 | 65,096 | 58,563 | 53,198 |
| Research grants and contracts | | 36,727 | 34,420 | 34,662 | 33,932 |
| Other income | 3 | 38,530 | 37,944 | 35,069 | 32,064 |
| Investment income | 4 | 139 | 159 | 139 | 169 |
| Operating income | | 165,466 | 158,594 | 148,042 | 140,338 |
| Donations and endowments | 5 | 3,271 | 17,765 | 3,271 | 17,765 |
| Total income | | 168,737 | 176,359 | 151,313 | 158,103 |
| Expenditure | | | | | |
| Staff costs | | | | | |
| Operating staff costs | 6 | 92,592 | 88,920 | 81,154 | 79,253 |
| USS pension provision movement | 22 | 335 | (3,158) | 335 | (3,152) |
| Total staff costs | | 92,927 | 85,762 | 81,489 | 76,101 |
| Other operating expenses | | 71,222 | 73,260 | 66,686 | 66,342 |
| Depreciation | 10 | 13,074 | 11,490 | 12,421 | 10,795 |
| Interest and other finance costs | 8 | 2,029 | 2,523 | 2,033 | 2,534 |
| Total expenditure | 7 | 179,252 | 173,035 | 162,629 | 155,772 |
| (Deficit)/surplus before other gains and losses | | (10,515) | 3,324 | (11,316) | 2,331 |
| Profit on disposal of assets | | - | 1,405 | - | 1,407 |
| Gain on investments | | 9 | 43 | 9 | 3 |
| (Deficit)/surplus before tax | | (10,506) | 4,772 | (11,307) | 3,741 |
| Taxation | 9 | (111) | (12) | (100) | - |
| (Deficit)/surplus for the year | | (10,617) | 4,760 | (11,407) | 3,741 |
| Actuarial gain in respect of pension schemes | 22 | 6,066 | 3,480 | 6,066 | 3,480 |
| Total comprehensive (loss)/income for the year | | (4,551) | 8,240 | (5,341) | 7,221 |
| Represented by: | | | | | |
| Endowment comprehensive income for the year | | 16 | 227 | 16 | 227 |
| Unrestricted comprehensive (loss)/income for the year | | (4,567) | 8,013 | (5,357) | 6,994 |
| | | (4,551) | 8,240 | (5,341) | 7,221 |

The notes on pages 36 to 55 form part of these accounts.

CRANFIELD UNIVERSITY

CONSOLIDATED STATEMENT OF CHANGES IN RESERVES
FOR THE YEAR ENDED 31ST JULY, 2018

| Consolidated | Income and expenditure account | | Revaluation reserve | Total |
|---|--------------------------------|----------------|---------------------|----------------|
| | Endowment | Unrestricted | | |
| | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 August 2016 | 5,889 | 36,627 | 53,031 | 95,547 |
| Surplus from the income and expenditure statement | 227 | 4,533 | - | 4,760 |
| Other comprehensive income | - | 3,480 | - | 3,480 |
| Total comprehensive income for the year | 227 | 8,013 | - | 8,240 |
| Balance at 1 August 2017 | 6,116 | 44,640 | 53,031 | 103,787 |
| Surplus/(deficit) from the income and expenditure statement | 16 | (10,633) | - | (10,617) |
| Other comprehensive income | - | 6,066 | - | 6,066 |
| Total comprehensive income/(loss) for the year | 16 | (4,567) | - | (4,551) |
| Balance at 31 July 2018 | 6,132 | 40,073 | 53,031 | 99,236 |

| University | Income and expenditure account | | | Revaluation reserve | Total |
|---|--------------------------------|------------|----------------|---------------------|----------------|
| | Endowment | Restricted | Unrestricted | | |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Balance at 1 August 2016 | 5,889 | - | 36,333 | 53,031 | 95,253 |
| Surplus from the income and expenditure statement | 227 | - | 3,514 | - | 3,741 |
| Other comprehensive income | - | - | 3,480 | - | 3,480 |
| Total comprehensive income for the year | 227 | - | 6,994 | - | 7,221 |
| Balance at 1 August 2017 | 6,116 | - | 43,327 | 53,031 | 102,474 |
| Surplus/(deficit) from the income and expenditure statement | 16 | - | (11,423) | - | (11,407) |
| Other comprehensive income | - | - | 6,066 | - | 6,066 |
| Total comprehensive income/(loss) for the year | 16 | - | (5,357) | - | (5,341) |
| Balance at 31 July 2018 | 6,132 | - | 37,970 | 53,031 | 97,133 |

The notes on pages 36 to 55 form part of these accounts.

CRANFIELD UNIVERSITY
BALANCE SHEETS AT 31ST JULY, 2018

| | Notes | CONSOLIDATED | | UNIVERSITY | |
|---|-------|-----------------|-----------------|-----------------|-----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | | £'000 | £'000 | £'000 | £'000 |
| Non-current assets | | | | | |
| Fixed assets | 10 | 205,687 | 202,830 | 200,419 | 197,345 |
| Investments | 11 | 3,366 | 3,472 | 3,366 | 3,472 |
| Investments in subsidiaries | 12 | - | - | 5,186 | 5,186 |
| | | <u>209,053</u> | <u>206,302</u> | <u>208,971</u> | <u>206,003</u> |
| Current assets | | | | | |
| Stock | | 329 | 239 | 196 | 180 |
| Debtors | 13 | 36,018 | 37,586 | 33,340 | 34,336 |
| Cash at bank and in hand | | 5,878 | 4,041 | 1,802 | - |
| | | <u>42,225</u> | <u>41,866</u> | <u>35,338</u> | <u>34,516</u> |
| Less: Creditors: amounts falling due within one year | 14 | (70,096) | (57,257) | (65,524) | (51,110) |
| Net current liabilities | | <u>(27,871)</u> | <u>(15,391)</u> | <u>(30,186)</u> | <u>(16,594)</u> |
| Total assets less current liabilities | | <u>181,182</u> | <u>190,911</u> | <u>178,785</u> | <u>189,409</u> |
| Creditors: amounts falling due after more than one year | 15 | (20,729) | (21,378) | (20,729) | (21,378) |
| Provisions | | | | | |
| Pension provisions | 16 | (60,955) | (65,586) | (60,923) | (65,554) |
| Other provisions | 17 | (262) | (160) | - | (3) |
| Total net assets | | <u>99,236</u> | <u>103,787</u> | <u>97,133</u> | <u>102,474</u> |
| Financed by:- | | | | | |
| Restricted Reserves | | | | | |
| Income and expenditure reserve – endowment reserve | 18 | 6,132 | 6,116 | 6,132 | 6,116 |
| Unrestricted Reserves | | | | | |
| Income and expenditure reserve - unrestricted | | 40,073 | 44,640 | 37,970 | 43,327 |
| Revaluation reserve | | 53,031 | 53,031 | 53,031 | 53,031 |
| Total Reserves | | <u>99,236</u> | <u>103,787</u> | <u>97,133</u> | <u>102,474</u> |

The financial statements on pages 26 to 55 were approved by the Council on 15th November, 2018 and signed on its behalf by:-



C P FAIRWEATHER MA FCA
CHAIR OF FINANCE COMMITTEE



PROFESSOR SIR PETER GREGSON FREng
MRIA
CHIEF EXECUTIVE & VICE-CHANCELLOR



I SIBBALD FCA
DIRECTOR OF FINANCE

The notes on pages 36 to 55 form part of these accounts.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED 31ST JULY, 2018

| | Notes | 2018 £'000 | 2017 £'000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| (Deficit)/surplus for the year | | (10,617) | 4,760 |
| Adjustment for non-cash items | | | |
| Depreciation | 10 | 13,074 | 11,490 |
| Gain on investments | | (9) | (43) |
| Exchange (gain)/loss | | (22) | 329 |
| (Increase)/decrease in stock | | (90) | 6 |
| Decrease in debtors | | 1,568 | 4,038 |
| Increase/(decrease) in creditors | | 2,147 | (1,288) |
| (Decrease) in pension provision | | (239) | (3,455) |
| Increase/(decrease) in other provisions | | 102 | (10) |
| Adjustment for investing or financing activities | | | |
| Investment income | 4 | (139) | (159) |
| Interest payable | 8 | 2,029 | 2,523 |
| Profit on the sale of fixed assets | | - | (1,405) |
| Capital grant income | 5 | (3,271) | (17,765) |
| Net cash inflow/(outflow) from operating activities | | <u>4,533</u> | <u>(979)</u> |
| Cash flows from investing activities | | | |
| Proceeds from sale of fixed assets | | - | 1,407 |
| Capital grants receipts | | 3,000 | 2,000 |
| Disposal of non-current asset investments | | 650 | 795 |
| Investment income | | 139 | 161 |
| Payments made to acquire fixed assets | | (14,956) | (19,021) |
| New non-current asset investments | | (412) | (735) |
| Total cash outflow from investing activities | | <u>(11,579)</u> | <u>(15,393)</u> |
| Cash flows from financing activities | | | |
| Interest paid | | (375) | (187) |
| Interest element of finance lease | | (4) | (262) |
| Endowment cash received | | 271 | 765 |
| New unsecured loans | | 1,602 | 10,000 |
| Repayments of amounts borrowed | | (2,223) | (1,953) |
| Capital element of finance lease and service concession payments | | 221 | (464) |
| Total cash (outflow)/inflow from financing activity | | <u>(508)</u> | <u>7,899</u> |
| Decrease in cash and cash equivalents in the year | | <u>(7,554)</u> | <u>(8,473)</u> |
| Cash and cash equivalents at beginning of the year | 19 | (1,152) | 7,321 |
| Cash and cash equivalents at end of the year | 19 | (8,706) | (1,152) |
| Movement in cash | | <u>(7,554)</u> | <u>(8,473)</u> |

The notes on pages 36 to 55 form part of these accounts.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2018

| | CONSOLIDATED | | UNIVERSITY | |
|--|--------------|--------|------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| 1. Funding Council grants | | | | |
| Recurrent grant | 13,557 | 15,768 | 13,557 | 15,768 |
| Special initiatives | 6,052 | 5,207 | 6,052 | 5,207 |
| | 19,609 | 20,975 | 19,609 | 20,975 |
| | | | | |
| Grants are receivable from the Higher Education Funding Council for England until 31 st March, 2018. The grants then became receivable from Research England and the Office for Students following the transfer of responsibility away from the Higher Education Funding Council for England. | | | | |
| 2. Tuition fees and education contracts | | | | |
| Long course fees | 40,044 | 34,191 | 40,174 | 34,191 |
| Professional development courses | 18,413 | 17,933 | 6,385 | 6,120 |
| Teaching contract | 12,004 | 12,972 | 12,004 | 12,887 |
| | 70,461 | 65,096 | 58,563 | 53,198 |
| | | | | |
| 3. Other income | | | | |
| Residences and conference centres | 12,391 | 11,006 | 9,997 | 8,879 |
| Rents from tenant organisations | 1,057 | 1,155 | 1,733 | 1,807 |
| Other | 25,082 | 25,783 | 23,339 | 21,378 |
| | 38,530 | 37,944 | 35,069 | 32,064 |
| | | | | |
| 4. Investment income | | | | |
| Investment income from endowments | 91 | 84 | 91 | 84 |
| Other investment income | 48 | 75 | 48 | 85 |
| | 139 | 159 | 139 | 169 |

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | CONSOLIDATED | | UNIVERSITY | |
|--|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| 5. Donations and endowments | | | | |
| New endowments (Note 18) | 271 | 765 | 271 | 765 |
| Donations without restrictions | 3,000 | 17,000 | 3,000 | 17,000 |
| | <u>3,271</u> | <u>17,765</u> | <u>3,271</u> | <u>17,765</u> |
| 6. Staff | | | | |
| a. Staff costs | | | | |
| Wages and salaries | 71,570 | 71,633 | 62,254 | 63,649 |
| Social security costs | 7,508 | 7,352 | 6,615 | 6,537 |
| Other pension costs | 10,914 | 6,235 | 10,022 | 5,373 |
| | <u>89,992</u> | <u>85,220</u> | <u>78,891</u> | <u>75,559</u> |
| Exceptional staff restructuring | 2,935 | 542 | 2,598 | 542 |
| | <u>92,927</u> | <u>85,762</u> | <u>81,489</u> | <u>76,101</u> |
| Number of staff receiving payment for loss of office | <u>133</u> | <u>34</u> | <u>118</u> | <u>34</u> |
| Emoluments of the Vice-Chancellor (as detailed in the Remuneration Committee report on page 18) | | | | |
| Base salary | 286 | 286 | 286 | 286 |
| Cost of pension opt-out | 40 | 41 | 40 | 41 |
| Performance related pay | - | 37 | - | 37 |
| | <u>326</u> | <u>364</u> | <u>326</u> | <u>364</u> |
| In addition, the Vice-Chancellor is required to reside in Cayley Lodge, a property owned by the University, which is regularly used for VIP business and regional engagement. This non taxable benefit is valued at £14k (2017 £13k) based on the rental value opportunity cost. | | | | |
| The Vice-Chancellors salary and total remuneration expressed as a multiple of median salary and total remuneration of all other staff was: | | | | |
| Vice-Chancellor basic salary multiplier | 9.24 | 10.22 | 7.85 | 7.72 |
| Vice-Chancellor total remuneration multiplier | 7.85 | 8.11 | 7.71 | 8.78 |
| | <u>Number</u> | <u>Number</u> | <u>Number</u> | <u>Number</u> |
| b. The average number of employees during the year, expressed as full-time equivalents, was as follows:- | | | | |
| Academic | 458 | 452 | 442 | 430 |
| Research | 262 | 233 | 223 | 233 |
| Technical | 118 | 173 | 115 | 130 |
| Other | 879 | 916 | 669 | 717 |
| | <u>1,717</u> | <u>1,774</u> | <u>1,449</u> | <u>1,510</u> |

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

6. **Staff** *(continued...)*

| | CONSOLIDATED | | UNIVERSITY | |
|---|----------------|----------------|----------------|----------------|
| | 2018 Number | 2017 Number | 2018 Number | 2017 Number |
| c. Remuneration of other higher paid staff, excluding employer's pension contributions, were as follows:- | | | | |
| £100,000 - £104,999 | 8 | 7 | 8 | 7 |
| £105,000 - £109,999 | 8 | 4 | 5 | 3 |
| £110,000 - £114,999 | 7 | 5 | 6 | 4 |
| £115,000 - £119,999 | 2 | 4 | 2 | 4 |
| £120,000 - £124,999 | 6 | 5 | 6 | 5 |
| £125,000 - £129,999 | 2 | - | 2 | - |
| £130,000 - £134,999 | 1 | 4 | 1 | 4 |
| £135,000 - £139,999 | 2 | 2 | 2 | 2 |
| £140,000 - £144,999 | - | - | - | - |
| £145,000 - £149,999 | 1 | 1 | 1 | 1 |
| £150,000 - £154,999 | - | 2 | - | 2 |
| £155,000 - £159,999 | 1 | 1 | 1 | 1 |
| £160,000 - £164,999 | 1 | - | 1 | - |
| £165,000 - £169,999 | - | 2 | - | 2 |
| £170,000 - £174,999 | 2 | 1 | 1 | 1 |
| £180,000 - £184,999 | - | 1 | - | - |
| £200,000 - £204,999 | 1 | - | 1 | - |
| £270,000 - £274,999 | - | 1 | - | 1 |

Key Management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the University.

| | CONSOLIDATED & UNIVERSITY | |
|---------------------------------------|------------------------------|---------------|
| | 2018 £'000 | 2017 £'000 |
| Key management personnel compensation | 1,732 | 1,996 |

Council Members

The University's council members are the trustees for charitable law purposes. Due to the nature of the University's operations and the compositions of the Council, it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest. All transactions involving organisations in which a member of Council may have an interest are conducted at arm's length and in accordance with the University's Financial Regulations and usual procurement procedures.

No Council member received any payment for their role as a trustee. Mr P Fairweather has provided consultancy services in the year and was paid, including expenses, £12,627 (2017 £14,357).

The total expenses paid to or on behalf of six council members was £2,114 (2017 £1,813 to five council members). This represents travel and subsistence expenses incurred in attending Council, Committee meetings and Charity events in their official capacity.

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | CONSOLIDATED | | UNIVERSITY | |
|---|---------------|---------------|---------------|---------------|
| | 2018 £'000 | 2017 £'000 | 2018 £'000 | 2017 £'000 |
| 7. Other operating amounts charged include:- | | | | |
| Equipment expensed | 3,041 | 2,043 | 2,985 | 1,973 |
| Auditor's remuneration:- | | | | |
| - external audit | 124 | 135 | 76 | 86 |
| - other services including tax | 72 | 105 | 51 | 77 |
| Council members' expenses | 2 | 2 | 2 | 2 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 8. Interest and other finance costs | | | | |
| Loan interest | 373 | 206 | 377 | 217 |
| Finance leases | 4 | 262 | 4 | 262 |
| Exchange differences | (22) | 329 | (22) | 329 |
| Net charge on Pension scheme | 1,674 | 1,726 | 1,674 | 1,726 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 2,029 | 2,523 | 2,033 | 2,534 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| 9. Taxation | | | | |
| Recognised in the statement of comprehensive income:- | | | | |
| Current tax expense | 23 | 12 | 12 | - |
| Overseas tax | 88 | | 88 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Total tax expense | 111 | 12 | 100 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The differences are explained below:

| | | | | |
|---|----------|---------|----------|-------|
| (Deficit)/surplus on ordinary activities before taxation | (10,506) | 4,772 | (11,307) | 3,741 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Tax on (deficit)/surplus on ordinary activities multiplied by the lower rate of corporation tax in the UK of 23.67% (2017 – 23.67%) | (2,486) | 1,130 | (2,676) | 748 |
| Factors affecting charge: | | | | |
| Tax losses | 2,497 | - | 2,676 | - |
| University surplus exempt from corporation tax | - | (1,709) | - | (748) |
| RDEC tax charge | 12 | - | 12 | - |
| Overseas tax | 88 | - | 88 | - |
| Other permanent differences | | 591 | | |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Corporation tax charged in the year | 111 | 12 | 100 | - |
| | <hr/> | <hr/> | <hr/> | <hr/> |

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | Land & Buildings | | | Fixtures, Plant & Machinery | Total |
|--------------------------------|------------------|-----------|-----------|-----------------------------------|---------|
| | Freehold | Leasehold | Equipment | | |
| 10. Fixed assets | | | | | |
| a. Consolidated | | | | | |
| Cost/valuation | | | | | |
| At beginning of year | 180,332 | 7,437 | 46,410 | 97,411 | 331,590 |
| Additions | 2,620 | - | 4,490 | 8,823 | 15,933 |
| Disposals | - | - | (915) | (99) | (1,014) |
| At end of year | 182,952 | 7,437 | 49,985 | 106,135 | 346,509 |
| Consisting of valuation as at: | | | | | |
| 31 July 2018 | 53,031 | - | - | - | 53,031 |
| Cost | 129,921 | 7,437 | 49,985 | 106,135 | 293,478 |
| Depreciation | | | | | |
| At beginning of year | 26,731 | 5,119 | 36,455 | 60,455 | 128,760 |
| Charge for year | 2,504 | 230 | 3,813 | 6,527 | 13,074 |
| Disposals | - | - | (914) | (98) | (1,012) |
| At end of year | 29,235 | 5,349 | 39,354 | 66,884 | 140,822 |
| Net book amount | | | | | |
| At end of year | 153,717 | 2,088 | 10,631 | 39,251 | 205,687 |
| At beginning of year | 153,601 | 2,318 | 9,955 | 36,956 | 202,830 |

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | Land & Buildings | | | Fixtures, Plant & Machinery | Total |
|---|------------------|-----------|-----------|-----------------------------------|---------|
| | Freehold | Leasehold | Equipment | | |
| | £'000 | £'000 | £'000 | | |
| 10. Fixed assets (continued ...) | | | | | |
| <i>b. University</i> | | | | | |
| Cost/valuation | | | | | |
| At beginning of year | 174,283 | 7,437 | 45,801 | 90,039 | 317,560 |
| Additions | 2,620 | - | 4,438 | 8,438 | 15,496 |
| Disposals | - | - | (915) | (57) | (972) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 176,903 | 7,437 | 49,324 | 98,420 | 332,084 |
| Consisting of valuation as at: | | | | | |
| 31 July 2018 | 53,031 | - | - | - | 53,031 |
| Cost | 123,872 | 7,437 | 49,324 | 98,420 | 279,053 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Depreciation | | | | | |
| At beginning of year | 24,405 | 5,119 | 35,990 | 54,701 | 120,215 |
| Charge for year | 2,370 | 230 | 3,748 | 6,073 | 12,421 |
| Disposals | - | - | (914) | (57) | (971) |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At end of year | 26,775 | 5,349 | 38,824 | 60,717 | 131,665 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Net book amount | | | | | |
| At end of year | 150,128 | 2,088 | 10,500 | 37,703 | 200,419 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| At beginning of year | 149,878 | 2,318 | 9,811 | 35,338 | 197,345 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |

At 31 July, 2018, freehold land and buildings included £53,370,000 (2017 £53,370,000) in respect of freehold land at valuation and is not depreciated.

The net book amounts of tangible fixed assets include £2,399,000 (2017 - £2,318,000) in respect of assets held under finance leases in the consolidated and University accounts respectively. The related depreciation charge for the year was £237,000 (2017 - £230,000). At 31st July 2018, buildings, fixtures and plant included £6,693,000 (2017 - £5,691,000) in respect of assets under construction in the consolidated accounts. In the University assets under construction amounted to £6,693,000 (2017 - £5,691,000).

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | | CONSOLIDATED AND UNIVERSITY | |
|---------------------------------------|--|--|--------------|
| | | 2018 | 2017 |
| | | £'000 | £'000 |
| 11. Investments | | | |
| | Listed securities at beginning of year | 3,472 | 3,408 |
| | Additions | 412 | 735 |
| | Gains in year | 132 | 124 |
| | Disposals | (650) | (795) |
| | At end of year | 3,366 | 3,472 |
| | | | |
| | | | |
| | | UNIVERSITY | |
| | | 2018 | 2017 |
| | | £'000 | £'000 |
| 12. Investment in subsidiaries | | | |
| | At beginning of year | 5,186 | 5,186 |
| | Additions | - | - |
| | Disposals | - | - |
| | At end of year | 5,186 | 5,186 |
| | | | |

At 31st July, 2018 the group's principal subsidiaries, all of which were wholly owned and registered in England and Wales, comprised:-

| COMPANY | NATURE OF BUSINESS |
|---|---|
| Cranfield Group Holdings Limited | Holding company |
| Cranfield Airport Operations Limited | Provision of air traffic control services |
| Cranfield Aerospace Solutions Limited | Aerospace research and development |
| Cranfield Conference Centre Limited | Provision of conference and accommodation services |
| Cranfield Quality Services Limited | Provision of residential support services |
| Cranfield Regatta Limited | Organisation of an annual sailing event |
| Cranfield Innovative Manufacturing Limited | Consultancy and development programmes in manufacturing |
| Cranfield Management Development Limited | Provision of executive development programmes |
| Cranfield Engineering Innovations Limited | Provision of electronic risk assessments |

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2018
 (continued...)

| | CONSOLIDATED | | UNIVERSITY | |
|---|---------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| 13. Debtors | | | | |
| Work in progress | 11,129 | 11,510 | 10,774 | 11,119 |
| Other trade debtors | 20,862 | 22,610 | 17,589 | 18,704 |
| Prepayments and accrued income | 4,027 | 3,465 | 2,834 | 2,518 |
| Other taxes | - | 1 | - | - |
| Amounts receivable from subsidiary undertakings | - | - | 2,143 | 1,995 |
| | <u>36,018</u> | <u>37,586</u> | <u>33,340</u> | <u>34,336</u> |

Included in amounts receivable from subsidiary undertakings is £Nil (2017 - £279,000) which is recoverable after more than one year.

Work in progress comprises:-

| | | | | |
|---|---------------|---------------|---------------|---------------|
| Costs incurred to date less foreseeable losses | 52,496 | 56,847 | 50,940 | 54,593 |
| Less: progress payments | (41,367) | (45,337) | (40,166) | (43,474) |
| | <u>11,129</u> | <u>11,510</u> | <u>10,774</u> | <u>11,119</u> |

14. Creditors: amounts falling due within one year

| | | | | |
|--|---------------|---------------|---------------|---------------|
| Bank overdraft | 14,584 | 5,193 | 14,584 | 5,193 |
| Secured loans | 273 | 250 | 273 | 250 |
| Unsecured loans | 2,121 | 1,981 | 2,121 | 1,981 |
| Finance lease obligations | 96 | 33 | 96 | 33 |
| Amounts owed to subsidiary undertakings | - | - | 882 | 350 |
| Trade creditors | 23,174 | 21,076 | 20,372 | 17,674 |
| Social security costs and other taxation payable | 2,777 | 2,763 | 2,230 | 2,314 |
| Accruals and deferred income | 27,071 | 25,961 | 24,966 | 23,315 |
| | <u>70,096</u> | <u>57,257</u> | <u>65,524</u> | <u>51,110</u> |

15. Creditors: amounts falling due after more than one year

| | | | | |
|---------------------------|---------------|---------------|---------------|---------------|
| Finance lease obligations | 267 | 109 | 267 | 109 |
| Secured loans | 883 | 1,156 | 883 | 1,156 |
| Unsecured loans | 19,579 | 20,113 | 19,579 | 20,113 |
| | <u>20,729</u> | <u>21,378</u> | <u>20,729</u> | <u>21,378</u> |

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

| | CONSOLIDATED | | UNIVERSITY | |
|---|--------------|--------|------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| 15. Creditors: amounts falling due after more than one year (continued ...) | | | | |
| <i>Analysis of secured and unsecured loans due within one year or on demand (note 14)</i> | 2,394 | 2,231 | 2,394 | 2,231 |
| Between one and two years | 2,263 | 2,075 | 2,263 | 2,075 |
| Between two and five years | 6,486 | 5,538 | 6,486 | 5,538 |
| Five years or more | 11,713 | 13,656 | 11,713 | 13,656 |
| Due after more than one year | 20,462 | 21,269 | 20,462 | 21,269 |
| Total secured and unsecured loans | 22,856 | 23,500 | 22,858 | 23,500 |

The net finance lease obligations

| | | | | |
|--|-----|-----|-----|-----|
| Due within one year or on demand (note 14) | 96 | 33 | 96 | 33 |
| Between one and two years | 97 | 33 | 97 | 33 |
| Between two and five years | 170 | 76 | 170 | 76 |
| Five years or more | - | - | - | - |
| Due after more than one year | 267 | 109 | 267 | 109 |
| Total net finance lease obligations | 363 | 142 | 363 | 142 |

The Group had the following bank loans at 31st July, 2018:-

| Interest Rate | Loan Type | Security | Final Repayment | Loan Outstanding £'000 |
|--------------------------|-----------------|--------------------|--------------------------------|---------------------------|
| 1. Euro base + 0.18% | Floating(Euros) | None | 15th August 2027 | 4,630 |
| 2. Sterling base + 0.18% | Floating | None | 31st July 2027 | 5,813 |
| 3. 8.71% | Fixed | Land and buildings | 14th March 2022 | 1,157 |
| 4. Interest Free | Salix Fixed | None | 1st April 2023 | 1,601 |
| 5. Interest Free | Salix Fund | None | 1 st September 2018 | 30 |
| 6. Interest Free | Salix Fund | None | 1 st September 2018 | 125 |
| 7. Sterling LIBOR +1.75% | Floating | None | 31 st May 2037 | 9,500 |
| | | | | 22,856 |

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

16. Pension provisions

| Consolidated | Obligation to fund deficit on USS pension £'000 | Defined Benefit Obligations (Note 22) £'000 | Total Pensions Provisions £'000 |
|------------------|--|--|------------------------------------|
| At 1 August 2017 | 11,182 | 54,404 | 65,586 |
| Utilised in year | (716) | 832 | 116 |
| Reductions | 1,319 | (6,066) | (4,747) |
| At 31 July 2018 | 11,785 | 49,170 | 60,955 |

| University | Obligation to fund deficit on USS pension £'000 | Defined Benefit Obligations (Note 22) £'000 | Total Pensions Provisions £'000 |
|------------------|--|--|------------------------------------|
| At 1 August 2017 | 11,150 | 54,404 | 65,554 |
| Utilised in year | (716) | 832 | 116 |
| Reductions | 1,319 | (6,066) | (4,747) |
| At 31 July 2018 | 11,753 | 49,170 | 60,923 |

Pension enhancement

The assumptions for calculating the provision for pension enhancements on termination under FRS 102 are as follows:

| | Consolidated |
|---------------|--------------|
| Discount rate | 2.4 |
| Inflation | 2.7 |
| | 2.7 |

USS deficit

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.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2017
 (continued...)

| | Staff restructuring | Other | Total |
|---|------------------------|-------|-------|
| | £'000 | £'000 | £'000 |
| 17. Provisions for liabilities and charges | | | |
| <i>a. Consolidated</i> | | | |
| At beginning of year | 3 | 157 | 160 |
| Utilised | (3) | - | (3) |
| Released | - | - | - |
| Charged to income and expenditure account | - | 105 | 105 |
| At end of year | - | 262 | 262 |
| <i>b. University</i> | | | |
| At beginning of year | 3 | - | 3 |
| Utilised | (3) | - | (3) |
| Released | - | - | - |
| Charged to income and expenditure account | - | - | - |
| At end of year | - | - | - |

Other relates to a warranty provision in place over a five year period.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2018
 (continued...)

18. Endowment reserves

| | Expendable endowments | 2018 Total | 2017 Total |
|--|--------------------------|---------------|---------------|
| | £'000 | £'000 | £'000 |
| Balances at 1 August 2017 | | | |
| Capital | 5,984 | 5,984 | 5,721 |
| Accumulated income | 132 | 132 | 168 |
| | <hr/> | <hr/> | <hr/> |
| | 6,116 | 6,116 | 5,889 |
| New endowments | 271 | 271 | 765 |
| Investment income | 90 | 90 | 84 |
| Expenditure | (354) | (354) | (625) |
| Increase/(decrease) in market value of investments | 9 | 9 | 3 |
| | <hr/> | <hr/> | <hr/> |
| Total endowment comprehensive income for the year | 16 | 16 | 227 |
| | <hr/> | <hr/> | <hr/> |
| At 31 July 2018 | 6,132 | 6,132 | 6,116 |
| | <hr/> | <hr/> | <hr/> |
| Represented by: | | | |
| Capital | 5,953 | 5,953 | 5,984 |
| Accumulated income | 179 | 179 | 132 |
| | <hr/> | <hr/> | <hr/> |
| | 6,132 | 6,132 | 6,116 |
| | <hr/> | <hr/> | <hr/> |
| Analysis by type of purpose: | | | |
| Lectureships | 840 | 840 | 864 |
| Scholarships and bursaries | 1,064 | 1,064 | 1,059 |
| Research support | 709 | 709 | 744 |
| Prize funds | 172 | 172 | 171 |
| General | 3,347 | 3,347 | 3,278 |
| | <hr/> | <hr/> | <hr/> |
| | 6,132 | 6,132 | 6,116 |
| | <hr/> | <hr/> | <hr/> |
| Analysis by asset | | | |
| Fixed assets | 339 | 339 | 339 |
| Current and non-current asset investments | 3,052 | 3,052 | 2,790 |
| Cash & cash equivalents | 2,741 | 2,741 | 2,987 |
| | <hr/> | <hr/> | <hr/> |
| | 6,132 | 6,132 | 6,116 |
| | <hr/> | <hr/> | <hr/> |

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

19. Cash and cash equivalents

| | Notes | At 1st August 2017 £'000 | Cash Flows £'000 | 31st July 2018 £'000 |
|---------------------------|-------|-----------------------------------|------------------------|----------------------------|
| Consolidated | | | | |
| Cash and cash equivalents | | 4,041 | 1,837 | 5,878 |
| Bank overdraft | 14 | (5,193) | (9,391) | (14,584) |
| | | <u>(1,152)</u> | <u>(7,554)</u> | <u>(8,706)</u> |

| | CONSOLIDATED | | UNIVERSITY | |
|-----------------------|--------------|-------|------------|-------|
| | 2018 | 2017 | 2018 | 2017 |
| | £'000 | £'000 | £'000 | £'000 |
| 20. Lease obligations | | | | |

Non-cancellable operating lease rentals are payable as follows:

Land and buildings

| | | | | |
|----------------------------|------------|--------------|------------|--------------|
| Within one year | 264 | 264 | 264 | 264 |
| Between two and five years | 508 | 973 | 508 | 973 |
| In more than five years | - | 249 | - | 249 |
| | <u>772</u> | <u>1,486</u> | <u>772</u> | <u>1,486</u> |

Other

| | | | | |
|----------------------------|------------|------------|----------|----------|
| Within one year | 56 | 60 | - | - |
| Between two and five years | 86 | 73 | - | - |
| In more than five years | - | - | - | - |
| | <u>142</u> | <u>133</u> | <u>-</u> | <u>-</u> |

During the year £324,000 was recognised as an expense in the profit and loss account in respect of operating leases (2017 £324,000).

21. Capital and other commitments

| | | | | |
|--|---------------|---------------|---------------|---------------|
| a. Commitments contracted but not provided in the accounts | <u>15,183</u> | <u>17,556</u> | <u>15,183</u> | <u>17,556</u> |
| b. Commitments authorised but not Contracted for | <u>52,051</u> | <u>58,057</u> | <u>50,651</u> | <u>58,057</u> |

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31ST JULY, 2018

(continued...)

22. Pensions

The two pension schemes for the University's staff are the Universities Superannuation Scheme (USS) and the Local Government Pension Scheme (LGPS) administered by Bedfordshire County Council. The assets of the USS are held in a separate trustee-administered fund and a Pension Fund Investment Advisory Panel is responsible for the investment arrangements of the assets of the LGPS. Both schemes are defined benefit schemes, which are externally funded, valued every three years by actuaries using the projected unit method and are contracted out of the State Earnings Related Pensions Scheme. In the intervening years, the actuaries review the progress of the schemes.

Between October 2011 and March 2016 USS provided two schemes, the first for existing members of staff at 30th September 2011 who were existing members of USS, this scheme had benefits based on final pensionable salary for academic and related employees of all universities in the United Kingdom and some other employers, the second for new entrants (other than in some specific, limited circumstances) were provided on a career re-valued benefit basis. From 1 April 2016 one revised career re-valued benefit scheme has been introduced for all academic and related employees.

LGPS provides similar benefits for other staff of the University, based on their final salary.

Pension costs are assessed, in accordance with the advice of the actuary, based on the latest actuarial valuation of the schemes and are accounted for on the basis of charging the cost of providing pensions over the period during which the University benefits from the employees' services.

USS

The University 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 University is therefore exposed to actuarial risks associated with other institutions' employees and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis. As required by Section 28 of FRS 102 "Employee benefits", the University 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 University has entered into an agreement (the Recovery Plan) that determines how each employer within the scheme will fund the overall deficit, the University 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.

FRS 102 makes the distinction between a group plan and a multi-employer scheme. A group plan consists of a collection of entities under common control typically with a sponsoring employer. A multi-employer scheme is a scheme for entities not under common control and represents (typically) an industry-wide scheme such as Universities Superannuation Scheme. The accounting for a multi-employer scheme where the employer has entered into an agreement with the scheme that determines how the employer will fund a deficit results in the recognition of a liability for the contributions payable that arise from the agreement (to the extent that they relate to the deficit) and the resulting expense in profit or loss in accordance with section 28 of FRS 102. The management are satisfied that Universities Superannuation Scheme meets the definition of a multi-employer scheme and has therefore recognised the discounted fair value of the contractual contributions under the funding plan in existence at the date of approving the financial statements.

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018

(continued...)

22. Pensions (continued...)

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

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

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme's technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. These figures will be revised once the 2017 scheme valuation is complete.

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

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

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

Mortality base table

2018 Pre retirement: 71% of AMC00 (duration 0) for males and 112% of AFC00 (duration 0) for Females.

Post retirement: 96.5% of SAPS S1NMA "light" for males and 101.3% of RFV00 for females.

Future improvements: CMI_2016 with a smoothing parameter of 8.5 and a long term improvement rate of 1.8% pa for males and 1.6% for females.

2017 Pre retirement: 98% of SAPS S1NA "light" YOB unadjusted for males.

Post retirement: 99% of SAPS S1NMA "light" YOB with a -1 year adjustment for females

Future improvements: CMI_2014 with a long term rate of 1.5% p.a.

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

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

22. Pensions (continued...)

The current life expectancies on retirement at age 65 are:

| | 2018 | 2017 |
|-----------------------------------|------|------|
| Males currently aged 65 (years) | 24.5 | 24.4 |
| Females currently aged 65 (years) | 26.0 | 26.6 |
| Males currently aged 45 (years) | 26.5 | 26.5 |
| Females currently aged 45 (years) | 27.8 | 29.0 |

| | 2018 | 2017 |
|------------------------------|---------|---------|
| Scheme assets | £63.6bn | £60.0bn |
| Total scheme liabilities | £72.0bn | £77.5bn |
| FRS 102 total scheme deficit | £8.4bn | £17.5bn |
| FRS 102 total funding level | 88% | 77% |

| | | CONSOLIDATED | |
|------------------------------------|----|---------------|---------------|
| | | 2018 | 2017 |
| | | £'000 | £'000 |
| USS pension provision | | | |
| At beginning of the year | 16 | 11,182 | 14,908 |
| Interest payable | | 268 | 358 |
| Contributions paid against deficit | | (984) | (926) |
| Charged/(credited) in the year | | 1,319 | (3,158) |
| At end of the year | | <u>11,785</u> | <u>11,182</u> |

LGPS

The rate of the University's employer's contributions for LGPS is determined by the actuaries and is presently 18.9% of pensionable salaries. Employee rates for LGPS are statutorily prescribed. Variations from regular cost are spread over the expected average remaining working lifetime of members of the scheme after making allowances for future withdrawals.

The figures disclosed below estimated by the actuary as at 31st July, 2018 have been derived by suitable approximation methods from the full actuarial valuation as at 31st March, 2016. Surpluses or deficits that arise may impact on the University's future contribution commitment.

The major assumptions used by the actuary as at 31st July, 2018 are as follows:-

| | 2018 | 2017 | 2016 |
|---|------|------|------|
| | % | % | % |
| Salary scale increases per annum | 2.7 | 2.7 | 2.9 |
| Pension increases per annum | 2.4 | 2.4 | 1.9 |
| Discount rate per annum | 2.7 | 2.6 | 2.4 |
| Members opting for enhanced commutation pre 2008 service | 50.0 | 50.0 | 50.0 |
| Members opting for enhanced commutation post 2008 service | 75.0 | 75.0 | 75.0 |

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2018
 (continued...)

22. Pensions (continued...)

The assumed life expectations on retirement at age 65 are:-

| | 2018 | 2017 | 2016 |
|----------------------|------|------|------|
| Retiring today | | | |
| Males | 22.4 | 22.4 | 22.4 |
| Females | 24.5 | 24.5 | 24.3 |
| Retiring in 25 years | | | |
| Males | 24.0 | 24.0 | 24.4 |
| Females | 26.2 | 26.2 | 26.8 |

The estimated University share of the assets in the scheme and the expected rates of return were:-

| | 2018 | | 2017 | | 2016 | |
|----------|--------------------------------------|-----------------|--------------------------------------|-----------------|---------------------------------|---------------|
| | Long term return expected % | Assets £'000 | Long term return expected % | Assets £'000 | Long term return expected | Assets |
| Equities | 2.7 | 52,778 | 2.6 | 49,071 | 2.4 | 60,735 |
| Property | 2.7 | 8,190 | 2.6 | 7,614 | 2.4 | 7,786 |
| Bonds | 2.7 | 12,739 | 2.6 | 11,845 | 2.4 | 7,008 |
| Cash | 2.7 | 17,289 | 2.6 | 16,075 | 2.4 | 2,336 |
| | <u>2.7</u> | <u>90,996</u> | <u>2.6</u> | <u>84,605</u> | <u>2.4</u> | <u>77,865</u> |

There is no provision for unitising the assets of a Fund under LGPS. The asset of the scheme, as a whole, is allocated to participating bodies on a consistent and reasonable basis.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

22. Pensions *(continued ...)*

The University's share of the underlying assets and liabilities are as follows:-

| | 2018 £'000 | 2017 £'000 |
|---|-----------------|-----------------|
| Market value of assets | 90,996 | 84,605 |
| Present value of liabilities | (140,166) | (139,009) |
| Deficit in the scheme – net pension liability recorded within pension provisions (note 16) | (49,170) | (54,404) |
| Current service cost | 3,712 | 3,090 |
| Loss due to curtailments | 82 | 16 |
| Past service cost | - | - |
| Total operating charge | 3,794 | 3,106 |
| Analysis of the amount charged to interest payable | | |
| Interest on pension scheme liabilities | 3,613 | 3,243 |
| Expected return on pension scheme assets | (2,207) | (1,874) |
| Net charge to other finance costs | 1,406 | 1,369 |
| Total income and expenditure account charge | 5,200 | 4,475 |
| Analysis of other comprehensive income | | |
| Gain on assets | 3,537 | 4,290 |
| Change in demographic assumptions | - | 1,259 |
| Experience loss on liabilities | - | 3,347 |
| Gain/(loss) on liabilities | 2,529 | (5,416) |
| Total other comprehensive income before deduction for tax | 6,066 | 3,480 |
| Cumulative actuarial loss recognised as other comprehensive income for LGPS Scheme | | |
| Cumulative actuarial losses recognised at the start of the year | 7,599 | 11,079 |
| Cumulative actuarial losses recognised at the end of the year | 1,533 | 7,599 |
| Analysis of movement in deficit during the year: | | |
| Deficit in scheme at beginning of the year | (54,404) | (57,613) |
| Movement in year: | | |
| Current service cost | (3,712) | (3,090) |
| Contributions | 4,368 | 4,204 |
| Past service cost | - | - |
| Curtailment cost | (82) | (16) |
| Other finance charge | (1,406) | (1,369) |
| Actuarial gain/(loss) | 6,066 | 3,480 |
| Deficit in scheme at end of the year | (49,170) | (54,404) |

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

22. Pensions (continued ...)

| | 2018 | 2017 |
|---|---------|---------|
| | £'000 | £'000 |
| Analysis of movements in the present value of the scheme liabilities:- | | |
| Present value at beginning of year | 139,009 | 135,478 |
| Current service cost (net of member contributions) | 3,712 | 3,090 |
| Interest cost | 3,613 | 3,243 |
| Contributions by members (including notional contributions) | 602 | 612 |
| Actuarial (gains)/losses | (2,529) | 810 |
| Losses on curtailments | 82 | 16 |
| Actual benefits paid | (4,323) | (4,240) |
| | 140,166 | 139,009 |
| Analysis of movement in the fair value of the scheme assets:- | | |
| Fair value at beginning of year | 84,605 | 77,865 |
| Expected return on assets | 2,207 | 1,874 |
| Contributions by members | 602 | 612 |
| Contributions by the employer | 4,368 | 4,204 |
| Actuarial gains | 3,537 | 4,290 |
| Actual benefits paid | (4,323) | (4,240) |
| | 90,996 | 84,605 |
| Actual return on Scheme assets | 5.4% | 14.3% |
| Expected return on Scheme assets | 6.8% | 10.1% |
| | | |

Estimated contributions for LGPS in the Financial year 2019 is £4,316,000.

In addition to the main schemes described above, some of the subsidiaries operate their own pension schemes, details of which can be found in the individual company accounts.

| | £'000 | £'000 |
|--------------------------------|-------|-------|
| 23. Access funds | | |
| Funding Council grants | - | - |
| Disbursed to students | - | - |
| | 9 | 9 |
| Balance unspent at end of year | | |

Funding Council grants are available solely for students: the University acts only as paying agent. The grants and related disbursements are therefore excluded from the income and expenditure account.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2018
(continued...)

24. **Related party transactions**

The following exemptions available under FRS 102 have been applied to these financial statements:

- Disclosures in respect of transactions with wholly owned subsidiaries

