

Cranfield University

Financial Statements

31st July, 2012



CRANFIELD UNIVERSITY

FINANCIAL STATEMENTS

for the year ended 31st July, 2012

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CRANFIELD UNIVERSITY

OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT

FOR THE YEAR ENDED 31ST JULY, 2012

The activities of the University include teaching, research, design and development work in the fields of engineering, applied science, manufacturing and management. Operations are primarily carried out on campuses at Cranfield in Bedfordshire and Shrivenham in Oxfordshire. The University is an exempt charity subject to the Charities Act 2011.

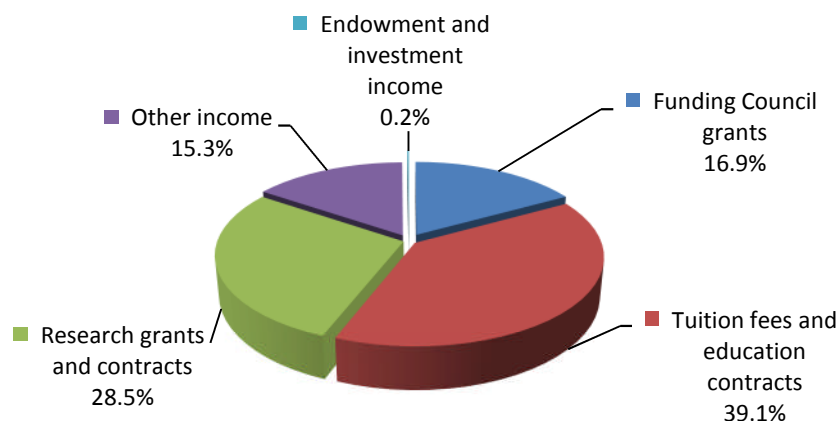
The financial statements presented to Court comprise the consolidated results of the University and its subsidiaries. Subsidiary companies undertake activities which, for legal and commercial reasons, are more appropriately channelled through a limited company and include the development of activities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

Results for the year and position at year end

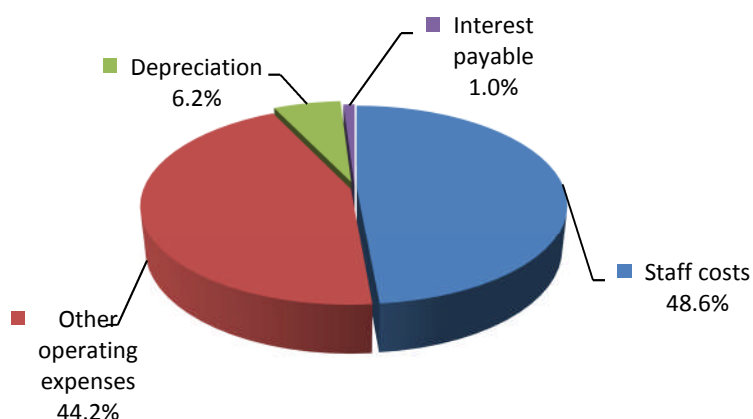
The consolidated results for the year ended 31st July, 2012 are summarised below:-

	2012	2011
	£'000	£'000
Income	166,224	169,307
Expenditure	(165,663)	(168,340)
Surplus for year retained in general reserves	<u>561</u>	<u>967</u>

INCOME 2012



EXPENDITURE 2012



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FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

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

Income was 1.8% lower compared to the previous year. Although funding council grants and tuition fees fell in the year, research and other income both grew strongly. The surplus for the year retained in general reserves was £561,000 (2011 - £967,000). This was a good financial performance considering the very difficult economic climate faced in the year.

Capital expenditure in the year amounted to £9,728,000 (2011 - £17,849,000). This includes a number of infrastructure projects on the Cranfield campus.

The statement of consolidated cash flow shows a increase in cash of £7,416,000. Net cash inflows from operating activities were £8,111,000 as shown in Note 25.

Consolidated reserves and endowments decreased by £7,516,000 (2011 – increase by £23,761,000) as explained in the statement of total recognised gains and losses on page 21. Included in arriving at this figure, there is a decrease of £9,765,000 relating to the pension loss on the Bedfordshire County Council pension fund.

Principal risks and uncertainties

The University receives a smaller proportion of its income from HEFCE, which was 16.9% for the 2011/12 year, 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.

As with other Higher Education Institutions, Cranfield is vulnerable to decisions made by HEFCE, Research Councils and other Government bodies. In particular, Cranfield continues to rely very heavily on the 'institution-specific funding' it receives from HEFCE. There also remains considerable uncertainty about funding for postgraduates and their access to funding sources to finance their studies.

The University is at risk from cost inflation, especially that related to employment costs. Pension costs continue to rise and a tight control of salary costs is vital to the future sustainability of the University.

As with the rest of the sector, Cranfield will receive significantly less capital funding from HEFCE over the next three years. In this context it was particularly pleasing to complete the phased sale of land on the former Silsoe campus in August 2011. This will help to mitigate the short term effects of the reduction in HEFCE capital funding and allow the University to continue to make strategic investments over the period to 2015.

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OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
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(continued...)

Key Performance Indicators (KPI's):-

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

	Cranfield Actual 2012	Cranfield Actual 2011	Mean Average HEFCE funded HEI* Forecast 2012
Income (reduction) / growth	(1.8%)	4.3%	(0.8%)
Surplus for year as a % of total income	0.3%	0.6%	1.2%
Staff costs before exceptional costs as a % of total income	47.9%	46.1%	55.0%
Cash flow from operating activities as a % of total income	4.9%	3.4%	4.5%
Net liquidity as number of days expenditure	53	40	88
External borrowings as a % of total income	11.3%	12.6%	23.9%
Discretionary reserves (excluding FRS17) as a % of total income	41.7%	31.9%	54.1%

*Source: HEFCE Publication 2012/05.

The table above reflects the position that the University remains in sound financial health. 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 lower relative borrowings than the majority of the sector.

In terms of overall operations, Cranfield does not appear in all league tables produced on behalf of the sector, due to having exclusively postgraduate students. However, in those league tables where the University does appear, the performance compares favourably.

Outlook for 2012/2013

The 2012/2013 financial year will continue to be difficult whilst both the UK and global economy remain as they are. However, continued tight control of expenditure means that it is the current expectation that the small budget surplus approved by Council in July 2012 will be achieved, provided income levels can be maintained.

Pensions

Under Financial Reporting Standard 17 (FRS 17), where the University's share of the underlying assets and liabilities of defined benefit schemes can be identified, a net pension asset or liability is required to be included in the accounts.

CRANFIELD UNIVERSITY
OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

Pensions *(continued...)*

As it is not possible to identify each participating institution's share of the underlying assets and liabilities of the Universities Superannuation Scheme, it is accounted for as if it is a defined contribution scheme with contributions charged as they become payable. At the last valuation as at 31st March, 2011, the assets were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings measured on a 'technical provisions' basis.

The share of underlying assets and liabilities of the Local Government Pension Scheme (LGPS) is able to be identified as at 31st July, 2012 and there is a net pension liability of £40,181,000 (2011 - £30,754,000) applicable to the University. Details are provided in Note 29.

Trading activities of subsidiaries

The venture companies are financially independent from the University and are administered through Cranfield Ventures Ltd. In addition to these companies, there are other subsidiaries undertaking core and related activities for the University.

Public Benefit report

The University is an exempt charity under the terms of the Charities Act 2011. Its Royal Charter of 1969 sets out the objectives of the advancement, dissemination and application of learning and knowledge in the disciplines of the sciences, engineering, technology and management.

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 December 2011. Of the specific examples of charitable activities highlighted in section 3 of the 2011 Act, Cranfield makes a significant contribution to the majority of them. These include:-

- the advancement of education
- the prevention or relief of poverty
- the advancement of health or the saving of lives
- the advancement of citizenship or community development
- the advancement of the arts, culture, heritage or science
- the advancement of human rights, conflict resolution or reconciliation or the promotion of religious or racial harmony or equality and diversity
- the advancement of environmental protection or improvement
- 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.

The University's website and publications, such as Cranfield's corporate brochure, provide further details of these activities.

Cranfield's students are drawn from over one hundred countries. As a research-intensive institution, the University has a commitment to widening participation for postgraduates; in particular the recruitment of:

- older/experienced 'return to study' applicants
- less conventionally qualified but experienced applicants, and
- those improving their skills by studying with Cranfield flexibly whilst in employment.

The University provides a wide range of scholarships and bursaries to enable participation by those students who would not otherwise be able to afford to study at the University.

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.

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 reduced and are now 14% lower than the 2005 level. Last year there was a 8% reduction (year on year) to 15,400 tonnes of CO₂.

Year	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12
Tonnes CO ₂	17,971	18,093	20,166	19,161	17,393	16,664	15,400

Note: These emissions 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

All matters relating to health and safety are addressed as a high priority. Regular health and safety audits and risk assessments are undertaken with remedial action following hazard identification.

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. In agreements negotiated with suppliers, the University endeavours to include and abide by specific payment terms in accordance with best commercial practice.

Corporate governance

The University is committed to following best practice in all aspects of corporate governance. This year's statement appears on pages 8 to 10 which reports full compliance with the Combined Code on Corporate Governance provisions relating to risk management.

Conclusion

Overall the University has achieved a good financial result for the year and, given its sound financial position, it is well placed to face the challenges and opportunities that may present themselves in the future.

This result has been achieved again through the innovation, quality and dedication of staff, through a period of significant change in the University.

R I Howard, ACA
TREASURER

24th October, 2012

CRANFIELD UNIVERSITY

CORPORATE 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.

The Charter and Statutes require the University to have a number of separate constitutional bodies. Three of these bodies, Court, Council and Senate have the primary responsibility to oversee and manage the University's activities, as follows:-

- **The Court** - is the supreme constitutional body of the University. It offers a means whereby the wider interests served by the University can be associated with the institution and provides a public forum where members of the Court can raise any matters about the University. The Court meets at least once in each academic year to receive the annual report and the financial statements of the University. In addition, major changes to the constitution of the University require the approval of the Court before they can be submitted to the Privy Council.
- **The Council** - is the executive governing body and has responsibility for the ongoing strategic direction of the institution, approval of major developments and the receipt of regular reports from executive officers on the day to day operations of its business. Council has reviewed its effectiveness in accordance with the Committee of University Chairs' Governance Code of Practice and concluded that a review of the University Laws was required. It is anticipated that this process will be completed in 2013.
- **The Senate** - is the academic authority of the University and draws its membership entirely from the academic staff and the students of the institution. Its role is to direct and regulate the teaching and research work of the University.

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

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 Statutes of the University, the University's Financial Manual, the Financial Memorandum with the Higher Education Funding Council for England and by custom.

The Council has a majority of members from outside the University, (described as independent members), from whom the Chairman and Deputy Chairman 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.

CRANFIELD UNIVERSITY

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.

- **The Finance Committee** - meets at least five 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.
- **The 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.
- **The Remuneration Committee** - determines the annual remuneration of those senior staff, including the Vice-Chancellor, whose remuneration is reported in the annual financial statements.
- **The 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.

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.

The report of the Treasurer is given on pages 2 to 7 and the responsibilities of the Council are outlined on page 11. The annual financial statements are presented in a format which is in accordance with applicable Accounting Standards and the 2007 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 ongoing 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 regularly by the Finance Committee on behalf of the Council and it accords with the Combined Code provisions relating to risk management. The Finance 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.

CRANFIELD UNIVERSITY

CORPORATE GOVERNANCE

(continued ...)

- **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, Teaching Committee and Faculty Boards 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

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

The Council is the chief executive and financial body of the University. Its principal responsibilities, which are derived from the University's Royal Charter and the model statement from the Committee of University Chairs' Guide for members of Higher Education Governing Bodies are as follows:-

- To approve the mission and strategic vision of the institution, long-term strategic and business plans including key performance indicators, and to ensure that these meet the interests of stakeholders.
- To appoint, jointly with Senate, the Vice Chancellor as Chief Executive of the University. To establish the conditions of appointment and the arrangements for monitoring his/her performance. The Council is responsible for the removal of the Vice Chancellor for good cause in accordance with the University Laws.
- To delegate authority to the Vice Chancellor for the academic, corporate, financial, estate and personnel management of the institution.
- To establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the Vice Chancellor.
- To 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.
- To 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 shall, where possible and appropriate, be benchmarked against other comparable institutions.
- To establish processes to monitor and evaluate the performance and effectiveness of the Council and the wider governance of the University.
- To 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.
- To safeguard the good name and values of the institution.
- Jointly with Senate to appoint a Secretary to Council.
- To be the employing authority for all staff in the institution and to be responsible for ensuring the establishment of a human resources strategy.
- To 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 institution's assets, property and estate.
- To 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.
- To make such provision as it thinks fit for the general welfare of students, in consultation with the Senate.

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

(continued ...)

- To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the University.
- To ensure that the University's constitution is followed at all times and that appropriate advice is available to enable this to happen.

Members of Council

The following members served during 2011-2012 and up to the date of approval of these financial statements:-

Baroness Young of Old Scone*
Mr Gordon Page* (Pro-Chancellor and Chairman of Council)
Professor Sir John O'Reilly* (Vice-Chancellor)
Professor Lynette Ryals* (Pro-Vice-Chancellor)
Mr Robin Howard* (Treasurer)
Dr Andreas Raffel (Deputy Chairman of Council)
Ms Rachel Abercrombie
Professor Jackie Akhavan
Mrs Alison Amatsah (elected 1 April 2012)
Dr Tracey Bailey (elected 1 April 2012)
Mr Michael Barstow
Mr John Cridland
Mr Paul Fairweather
Professor Clifford Friend
Mr Dougie Hunter (elected 1 June 2012)
Dame Deirdre Hutton (co-opted 1 June 2012)
Major General (Retired) David Jenkins
Professor Joe Lunec
Mr Ian Mather
Mr Stephen Odell
Mr Atma Prakash (elected 1 June 2012)
Mrs Louise Redmond (co-opted 1 June 2012)
Dr Matthew Russell (elected 1 April 2012)
Dr Frances Saunders
Professor Mark Savill
Professor Tom Stephenson
Mr Philip Young

*Ex-officio

The following members retired during the year or since the year end:-

Mrs Rosemary Burns (retired 31 March 2012)
Dr Sarah Morgan (retired 31 March 2012)
Mr Nigel Murray (retired 31 March 2012)
Mr Abdulkarim Nazir (retired 31 May 2012)
Mr Ian Pickering (retired 31 May 2012)
Dr Gareth Williams (retired 31 May 2012)

RESPONSIBILITIES OF THE COUNCIL OF CRANFIELD UNIVERSITY

(continued ...)

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 2007 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.

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

- suitable accounting policies are selected and applied consistently;
- judgements and estimates are made that are reasonable and prudent;
- applicable Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The 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 are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council 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;
- secure the economical, efficient and effective management of the University's resources and expenditure.

INDEPENDENT AUDITORS' REPORT TO THE COUNCIL OF CRANFIELD UNIVERSITY

We have audited the Group and University financial statements (the "financial statements") of Cranfield University for the year ended 31st July 2012 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement and the Statement of Consolidated Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charter and Statutes of the University. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it 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 Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University Council and Auditors

As explained more fully in the Responsibilities of the Council of Cranfield University's Statement set out on page 11 the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31st July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education;

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

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes
- income has been applied in accordance with the University's Statutes; and

- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

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

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

A Argyle (Senior Partner)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

24th October, 2012

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES

1. Basis of accounting and preparation

The financial statements are prepared under the historical cost convention as modified by the revaluation of endowment asset investments and land and in accordance with both the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education (SORP) and applicable Accounting Standards.

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 represents amounts invoiced for goods and services, excluding value added tax, supplied in the period and in the case of research, design and development includes the value of work carried out but not yet invoiced. In the case of grants, the value claimable at the date of the balance sheet is brought into account. All income from cash deposits and endowments including realised profits on disposal of assets, is credited to the income and expenditure account in the period in which it is earned. Income from endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to endowments.

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

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.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

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, 2010 by BNP Paribas Real Estate. 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. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the buildings. If a building is sold prior to the full release of the deferred capital grant, and no repayment is required to the grant funder, the residual value of the grant is transferred to the income and expenditure reserve as a recognised gain through the statement of consolidated total recognised gains and losses.

(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. The related grants or gifts are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the equipment. If equipment is sold prior to the full release of the deferred capital grant, and no repayment is required to the grant funder, the residual value of the grant is transferred to the income and expenditure reserve as a recognised gain through the statement of consolidated total recognised gains and losses.

(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

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

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) Endowment asset investments are included in the balance sheet at market value, with land revalued triennially. The most recent land valuation was carried out as at 31st July, 2010 by BNP Paribas Real Estate.

Current asset investments are included at the lower of cost and net realisable value.

- (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.

11. Taxation status

The University is an exempt charity within the meaning of Schedule 2 of the Charities Act 1993 and as such is a charity within the meaning of the Taxes Act 1988. Accordingly, the University is potentially exempt from corporation tax or capital gains tax to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. The University's subsidiary companies are subject to corporation tax and Value Added Tax in the same way as any commercial organisation.

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.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

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 29. 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. As it is not possible to identify each participating institution's share of the underlying assets and liabilities of the USS, which is a defined benefit scheme, contributions to the scheme are accounted for as if it were a defined contribution scheme. For defined contribution schemes, the employers' contributions are charged as they become payable.

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 in operation existence for the foreseeable future. Thus, they continue to adopt the going concern basis in preparing the financial statements.

CRANFIELD UNIVERSITY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST JULY, 2012

		2012	2011
	Notes	£'000	£'000
Income			
Funding Council grants	1	28,107	30,746
Tuition fees and education contracts	2	64,973	68,751
Research grants and contracts		47,423	46,240
Other income	3	25,470	23,369
Endowment and investment income	4	251	201
Total income		<hr/> 166,224	<hr/> 169,307
Expenditure			
Staff costs	5	80,631	79,214
Other operating expenses	6	73,447	76,489
Depreciation	7	10,225	10,656
Interest payable	8	1,702	2,169
Total expenditure		<hr/> 166,005	<hr/> 168,528
Surplus after depreciation of assets and before tax		219	779
Loss on disposal of assets		<hr/> (28)	<hr/> (60)
Surplus after depreciation and disposal of assets before tax		191	719
Taxation	9	<hr/> -	<hr/> -
Surplus after depreciation and disposal of assets and tax		191	719
Transfer from accumulated income within endowments		<hr/> 370	<hr/> 248
Surplus for the year retained within general reserves		<hr/> 561	<hr/> 967

The consolidated income and expenditure account relates wholly to continuing operations. The surplus for the year attributable to the University is £759,000 (2011 – surplus £945,000).

The notes on pages 24 to 43 form part of these accounts.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST JULY, 2012

		2012	2011
	Notes	£'000	£'000
Surplus for the year retained in general reserves		561	967
Transfer from accumulated income within endowments		(370)	(248)
		<hr/>	<hr/>
Surplus after depreciation and disposal of assets and tax		191	719
Actuarial (loss) / gain recognised	29	(9,765)	11,708
Revaluation of endowment asset investments:	19	(41)	70
New endowments	19	279	834
Land revaluation	20	-	10,430
Transfer from deferred capital grant	18	1,820	-
		<hr/>	<hr/>
Total recognised (losses) / gains relating to the period		(7,516)	23,761
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		73,736	49,975
Total recognised (losses) / gains for the year		(7,516)	23,761
		<hr/>	<hr/>
Closing reserves and endowments		66,220	73,736
		<hr/>	<hr/>

STATEMENT OF CONSOLIDATED HISTORICAL COST SURPLUS AND DEFICITS
FOR THE YEAR ENDED 31ST JULY, 2012

		2012	2011
	Notes	£'000	£'000
Surplus after depreciation and disposal of assets before tax		191	719
		<hr/>	<hr/>
Historical cost surplus for the year before tax		191	719
		<hr/>	<hr/>
Historical cost surplus for the year after tax		191	719
		<hr/>	<hr/>
Historical cost surplus after tax retained within general reserves		561	967
		<hr/>	<hr/>

The notes on pages 24 to 43 form part of these accounts.

CRANFIELD UNIVERSITY
BALANCE SHEETS AT 31ST JULY, 2012

	Notes	CONSOLIDATED		UNIVERSITY	
		2012 £'000	2011 £'000	2012 £'000	2011 £'000
Fixed assets					
Intangible assets	10	42	-	-	-
Tangible assets	11	158,255	179,328	151,040	172,637
Investments	13	-	-	3,758	3,758
Total Fixed Assets		158,297	179,328	154,798	176,395
Endowment assets	12	5,917	6,049	7,345	7,477
Current assets					
Stock		229	208	153	133
Debtors	14	46,449	33,724	44,520	31,007
Cash at bank and in hand		24,295	17,335	22,167	14,581
Total current assets		70,973	51,267	66,840	45,721
Creditors: amounts falling due within one year	15	(53,136)	(46,756)	(48,339)	(41,333)
Net current assets		17,837	4,511	18,501	4,388
Total assets less current liabilities		182,051	189,888	180,644	188,260
Creditors: amounts falling due after more than one year	16	(17,486)	(19,731)	(17,486)	(19,731)
Provisions for liabilities and charges	17	(1,969)	(2,266)	(1,961)	(2,235)
Net assets excluding FRS17 pension liability		162,596	167,891	161,197	166,294
Pension liability	22	(40,181)	(30,754)	(40,181)	(30,754)
Net assets including FRS17 pension liability		122,415	137,137	121,016	135,540
Financed by:-					
Deferred capital grants	18	56,195	63,401	56,195	63,401
Endowments					
Expendable	19	7,345	7,477	7,345	7,477
Reserves					
Income and expenditure reserve excluding pension reserve	21	61,975	46,474	60,576	44,877
Pension reserve	22	(40,181)	(30,754)	(40,181)	(30,754)
Income and expenditure account including pension reserve		21,794	15,720	20,395	14,123
Revaluation reserve	20	37,081	50,539	37,081	50,539
		58,875	66,259	57,476	64,662
Total funds		122,415	137,137	121,016	135,540

The financial statements on pages 16 to 43 were approved by the Council on 24th October, 2012 and signed on its behalf by:-

R I HOWARD ACA
TREASURER

PROFESSOR SIR JOHN O'REILLY FREng
VICE-CHANCELLOR

P J ASPINALL ACA
GROUP DIRECTOR OF FINANCE & RESOURCES

The notes on pages 24 to 43 form part of these accounts.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED CASH FLOWS

FOR THE YEAR ENDED 31ST JULY, 2012

		2012	2011
	Notes	£'000	£'000
Net cash inflow from operating activities	25	8,153	5,686
Returns on investments and servicing of finance			
Interest received		196	160
Interest paid		(428)	(401)
Endowment income	19	55	41
Net cash outflow from returns on investments and servicing of finance		(177)	(200)
Taxation			
UK corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of fixed assets		(8,770)	(19,086)
Endowment asset investments disposed (net)		370	248
		(8,400)	(18,838)
Proceeds of disposal of tangible fixed assets		9,226	7
Deferred capital grants received		-	12,003
Endowments received		279	835
Net cash inflow / (outflow) from capital expenditure and financial investment		1,105	(5,993)
Net cash inflow / (outflow) before use of liquid resources and financing		9,081	(507)
Financing			
New loans/leases	26	-	-
Loans and finance leases repaid	26	(1,665)	(1,488)
Increase / (decrease) in cash in the year	27	7,416	(1,995)

The notes on pages 24 to 43 form part of these accounts.

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012

	CONSOLIDATED	
	2012	2011
	£'000	£'000
1. Funding Council grants		
Recurrent grant	21,243	23,641
Special initiatives	2,946	3,660
Deferred capital grants released		
Buildings (<i>Note 18</i>)	779	777
Equipment (<i>Note 18</i>)	3,139	2,668
	<hr/> 28,107	<hr/> 30,746
Grants are receivable from the Higher Education Funding Council for England. In addition to the above, grants were received for capital purposes of £1,947,000 (2011 - £3,162,000).		
2. Tuition fees and education contracts		
Long course fees	28,923	31,589
Professional development courses	20,321	21,233
Teaching contract	15,729	15,929
	<hr/> 64,973	<hr/> 68,751
3. Other income		
Residences and conference centres	10,523	10,185
Rents from tenant organisations	1,111	1,010
Deferred capital grants released		
Buildings (<i>Note 18</i>)	814	828
Equipment (<i>Note 18</i>)	710	691
Other	12,312	10,655
	<hr/> 25,470	<hr/> 23,369
4. Endowment and investment income		
Income from restricted expendable endowments (<i>Note 19</i>)	55	41
Interest on bank deposits	196	160
	<hr/> 251	<hr/> 201

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

		CONSOLIDATED	
		2012	2011
		£'000	£'000
5.	Staff		
a.	Staff costs		
	Wages and salaries	64,838	64,530
	Social security costs	5,633	5,471
	Other pension costs	9,108	8,091
		<hr/>	<hr/>
		79,579	78,092
	Exceptional staff restructuring costs	1,052	1,122
		<hr/>	<hr/>
		80,631	79,214
		<hr/>	<hr/>
	Emoluments of Vice-Chancellor	274	275
		<hr/>	<hr/>

The emoluments of the Vice-Chancellor are shown on the same basis as for higher paid staff. The University's pension contributions to the Universities Superannuation Scheme are paid at the same rates for the Vice-Chancellor as for other academic staff and amounted to £34,000 (2011 - £35,000).

b.	The average number of employees during the year, expressed as full-time equivalents, was as follows:-	Number	Number
	Academic	426	424
	Research	270	273
	Technical	185	184
	Administrative and manual	896	894
		<hr/>	<hr/>
		1,777	1,775
		<hr/>	<hr/>
c.	Remuneration of other higher paid staff, excluding employer's pension contributions, were as follows:-		
	£100,000 - £109,999	9	16
	£110,000 - £119,999	10	6
	£120,000 - £129,999	3	1
	£130,000 - £139,999	3	2
	£140,000 - £149,999	1	1
	£150,000 - £159,999	2	3
	£230,000 - £239,999	1	1

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	CONSOLIDATED	
	2012	2011
	£'000	£'000
6. Other operating expenses		
Other operating amounts charged include:-		
Equipment expensed	3,913	3,335
Foreign exchange (gain) / loss	(353)	60
Auditors' remuneration:-		
- external audit	122	116
- other services including tax	91	77
Council members' expenses	4	3
	<hr/>	<hr/>
Included in the above are audit fees in respect of the University only of £71,000 (2011 - £70,000)		
Council members' expenses represent re-imbursement of amounts incurred in attending University meetings. No Council member received any payment for their role as a trustee. Dawson Howard International, a partnership in which Mr R Howard has an interest, provided consultancy services in the year and was paid, including expenses, £35,288 (2011 - £19,768).		
7. Depreciation		
The depreciation charge has been funded by:-		
Deferred capital grants released	5,442	4,964
General income	4,783	5,692
	<hr/>	<hr/>
	10,225	10,656
	<hr/>	<hr/>
8. Interest payable		
Interest on overdrafts repayable within five years	-	4
Interest on long term loans repayable wholly or partly in more than five years	387	416
Finance leases	-	1
Pension finance costs (Note 28)	1,315	1,748
	<hr/>	<hr/>
	1,702	2,169
	<hr/>	<hr/>
9. Taxation		
Corporation tax charged/(credited) in the year:-		
UK corporation tax at 20.67% (2011 - 20.67%)	-	-
Prior years	-	-
	<hr/>	<hr/>
	-	-
	<hr/>	<hr/>

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

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

9. Taxation <i>(continued ...)</i>	CONSOLIDATED	
	2012	2011
	£'000	£'000
Surplus on ordinary activities before taxation	561	967
Tax on surplus on ordinary activities multiplied by the lower rate of corporation tax in the UK of 20.67% (2011 – 20.67%)	116	200
Factors affecting charge:		
University surplus exempt from corporation tax	(157)	(196)
Other permanent differences	41	(4)
Corporation tax charged in the year	-	-

There are no significant unprovided amounts in respect of deferred taxation (2011 - £Nil).

10. Intangible Assets

The expenditure of £42,000 relates to the capitalisation of patent costs within a subsidiary company, Cranfield Aerospace Limited (2011 – £nil). There was no amortisation in the year.

	Land & Buildings		Equipment	Fixtures, Plant & Machinery	Total
	Freehold	Leasehold			
	£'000	£'000	£'000	£'000	£'000
11. Tangible assets					
<i>a. Consolidated</i>					
Cost/valuation					
At beginning of year	175,914	1,444	34,857	62,449	274,664
Additions	2,359	-	2,897	4,472	9,728
Disposals	(22,501)	-	(1,558)	(4,492)	(28,551)
At end of year	155,772	1,444	36,196	62,429	255,841
Cost	118,691	1,444	36,196	62,429	218,760
Valuation	37,081	-	-	-	37,081
Depreciation					
At beginning of year	32,099	1,444	26,747	35,046	95,336
Charge for year	3,379	-	2,690	4,156	10,225
Disposals	(2,246)	-	(1,552)	(4,177)	(7,975)
At end of year	33,232	1,444	27,885	35,025	97,586
Net book amount					
At end of year	122,540	-	8,311	27,404	158,255
At beginning of year	143,815	-	8,110	27,403	179,328

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	Land & Buildings			Fixtures, Plant & Machinery	Total
	Freehold	Leasehold	Equipment		
	£'000	£'000	£'000	£'000	£'000
11. Tangible assets (continued ...)					
b. University					
Cost/valuation					
At beginning of year	170,293	1,444	34,466	57,048	263,251
Additions	1,599	-	2,927	3,932	8,458
Disposals	(22,350)	-	(1,552)	(4,482)	(28,384)
At end of year	149,542	1,444	35,841	56,498	243,325
Cost	112,461	1,444	35,841	56,498	206,244
Valuation	37,081	-	-	-	37,081
Depreciation					
At beginning of year	30,925	1,444	26,385	31,860	90,614
Charge for year	2,591	-	2,737	4,213	9,541
Disposals	(2,126)	-	(1,546)	(4,198)	(7,870)
At end of year	31,390	1,444	27,576	31,875	92,285
Net book amount					
At end of year	118,152	-	8,265	24,623	151,040
At beginning of year	139,368	-	8,081	25,188	172,637

The net book amounts of tangible fixed assets include £5,000 (2011 - £8,000) in respect of assets held under finance leases in the consolidated and University accounts respectively. The related depreciation charge for the year was £3,000 (2011 - £9,000). At 31st July, 2012 buildings, fixtures and plant included £2,483,000 (2011 - £887,000) in respect of assets under construction in the consolidated accounts. In the University assets under construction amounted to £2,302,000, (2011 - £887,000). The book value of Funding Council assets are disclosed in Note 17. Included in land and buildings is a value of £Nil (2011 - £20,500,000) for assets held for resale.

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	CONSOLIDATED	UNIVERSITY
	£'000	£'000
12. Endowment assets		
At beginning of year	6,049	7,477
Additions	334	334
Disposals	(377)	(377)
	(43)	(43)
Revaluation	(89)	(89)
At end of year	5,917	7,345
Endowment assets:-		
Equities (<i>listed</i>)	1,467	1,467
Equities (<i>unlisted</i>)	42	42
Investments in subsidiaries	-	1,428
Land	241	241
Cash at bank and in hand including short term deposits	4,167	4,167
	5,917	7,345

The University Balance Sheet on Page 22 shows Endowment assets equal to Endowments in accordance with the 2007 Statement of Recommended Practice - Accounting for Further and Higher Education. On consolidation it is necessary to remove from Endowment assets, the investments in subsidiaries costs of £1,428,000.

	UNIVERSITY	
	2012	2011
	£'000	£'000
13. Investment in subsidiaries		
At beginning of year	3,758	-
Additions	-	3,758
At end of year	3,758	3,758

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

13. Investment in subsidiaries *(continued ...)*

At 31st July, 2012 the group's principal subsidiaries, all of which were wholly owned and registered in England and Wales, comprised:-

COMPANY	NATURE OF BUSINESS
Cranfield Ventures Limited	Holding company
Cranfield Enterprises Limited	Holds investments in spin-out companies
Silsoe Ventures Limited	Develop and market software
Sudbury House Hotel Limited	Provision of hotel and conference services
CIT Holdings Limited	Holding company
Cranfield Aerospace Limited	Aerospace research and development
Cranfield Conference Centre Limited	Provision of conference and accommodation services
Cranfield Quality Services Limited	Provision of staff
Cranfield Regatta Limited	Organisation of an annual sailing event
Cranfield Innovative Manufacturing Limited	Consultancy and development programmes in manufacturing
Cranfield Impact Centre Limited	Design of crash safety equipment and data recording systems
Cranfield Management Development Limited	Provision of executive development programmes
Cranfield Engineering Innovations Limited	Provision of electronic driver risk assessments

	CONSOLIDATED		UNIVERSITY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
14. Debtors				
Work in progress	10,681	11,968	10,167	11,473
Trade debtors	20,824	18,897	15,632	13,554
Prepayments and accrued income	14,928	2,856	14,488	2,519
Other taxes	16	3	-	-
Amounts receivable from subsidiary undertakings	-	-	4,233	3,461
	<u>46,449</u>	<u>33,724</u>	<u>44,520</u>	<u>31,007</u>

Included in amounts receivable from subsidiary undertakings is £1,686,000 (2011 - £697,000) which is recoverable after more than one year.

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
14. Debtors (continued ...)				
Work in progress comprises:-				
Costs incurred to date less foreseeable losses	68,336	69,557	64,098	62,706
Less: progress payments	(57,655)	(57,589)	(53,931)	(51,233)
	<u>10,681</u>	<u>11,968</u>	<u>10,167</u>	<u>11,473</u>
15. Creditors: amounts falling due within one year				
Bank overdraft	-	18	-	-
Bank loans	1,265	1,519	1,265	1,519
Finance lease obligations	3	3	3	3
Amounts owed to subsidiary undertakings	-	-	219	297
Trade creditors and accruals	18,405	16,660	15,489	13,197
Social security costs and other taxes	3,291	2,587	2,810	2,100
Deposits and income in advance	30,172	25,969	28,553	24,217
	<u>53,136</u>	<u>46,756</u>	<u>48,339</u>	<u>41,333</u>
16. Creditors: amounts falling due after more than one year				
Bank loans	17,483	19,725	17,483	19,725
Finance lease obligations	3	6	3	6
	<u>17,486</u>	<u>19,731</u>	<u>17,486</u>	<u>19,731</u>
a. <i>Bank loans</i>				
Bank loans are repayable:-				
Within one year	1,265	1,519	1,265	1,519
Between one and two years	1,279	1,318	1,279	1,318
Between two to five years	3,884	4,015	3,884	4,015
After five years	12,320	14,392	12,320	14,392
	<u>18,748</u>	<u>21,244</u>	<u>18,748</u>	<u>21,244</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

		CONSOLIDATED		UNIVERSITY	
		2012	2011	2012	2011
		£'000	£'000	£'000	£'000
16.	Creditors: amounts falling due after more than one year (continued ...)				
	<i>b. Finance leases</i>				
	The net finance lease obligations to which the University is committed are:-				
	Within one year	3	3	3	3
	Within two to five years	3	6	3	6
		<hr/>	<hr/>	<hr/>	<hr/>
		6	9	6	9
		<hr/>	<hr/>	<hr/>	<hr/>

The Group had the following bank loans at 31st July 2012:-

	Interest Rate	Loan Type	Security	Final Repayment	Loan Outstanding £'000
1.	Euro base + 0.18%	Floating	None	15th August 2027	6,635
2.	Sterling base + 0.18%	Floating	None	31st July 2027	9,679
3.	8.71%	Fixed	Land and buildings	14th March 2022	2,379
4.	Interest Free	Salix Fixed	None	1st September 2014	55
					<hr/>
					18,748
					<hr/>

		Staff restructuring	Other	Total
		£'000	£'000	£'000
17.	Provisions for liabilities and charges			
	<i>a. Consolidated</i>			
	At beginning of year	598	1,668	2,266
	Utilised	(394)	(1,385)	(1,779)
	Charged to income and expenditure account	871	611	1,482
		<hr/>	<hr/>	<hr/>
	At end of year	1,075	894	1,969
		<hr/>	<hr/>	<hr/>

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	Staff restructuring	Other	Total
	£'000	£'000	£'000
17. Provisions for liabilities and charges (continued ...)			
b. University			
At beginning of year	598	1,637	2,235
Utilised	(394)	(1,362)	(1,756)
Charged to income and expenditure account	871	611	1,482
At end of year	1,075	886	1,961

Staff restructuring will be utilised during the next financial year and relates to the re-organisation of activities at Shrivenham and Cranfield. Other relates to a warranty provision and costs related to legal compliance and their associated legal costs.

	General	Funding Council	Total
	£'000	£'000	£'000
18. Deferred capital grants			
Consolidated and University			
At beginning of year			
Buildings	15,000	25,411	40,411
Equipment	4,699	18,291	22,990
	19,699	43,702	63,401
Cash receivable			
Buildings	0	0	0
Equipment	56	0	56
Released to income and expenditure account			
Buildings	(814)	(779)	(1,593)
Equipment	(710)	(3,139)	(3,849)
Transfer to income and expenditure reserve			
Buildings	(135)	(1,489)	(1,624)
Equipment	(39)	(157)	(196)
At end of year	18,057	38,138	56,195
Buildings	14,051	23,143	37,194
Equipment	4,006	14,995	19,001
	18,057	38,138	56,195

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

		CONSOLIDATED AND UNIVERSITY		
		Restricted Expendable	2012 Total	2011 Total
		£'000	£'000	£'000
19.	Endowments			
	At beginning of year			
	Capital	6,764	6,764	6,054
	Accumulated income	713	713	766
		<hr/>	<hr/>	<hr/>
		7,477	7,477	6,820
	New endowments	279	279	834
	Investment income	55	55	41
	Expenditure	(425)	(425)	(288)
		<hr/>	<hr/>	<hr/>
		(370)	(370)	(247)
	Increase in market value of investments	(41)	(41)	70
		<hr/>	<hr/>	<hr/>
	At end of year	7,345	7,345	7,477
		<hr/>	<hr/>	<hr/>
	Represented by:			
	Capital	6,614	6,614	6,764
	Accumulated income	731	731	713
		<hr/>	<hr/>	<hr/>
		7,345	7,345	7,477
		<hr/>	<hr/>	<hr/>

The University has identified the capital value of endowments funds from historical records, where they are available. In relation to the Appeal to Industry Fund, the University has followed the British Universities Finance Directors Group (BUFDG) Guidance Note and adopted the value of the Fund at 31st July, 1998 as the basis of the assumed capital value at 1st August, 2006.

		CONSOLIDATED AND UNIVERSITY	
		£'000	
20.	Revaluation reserve		
	At beginning of year		50,539
	Transfer to income and expenditure reserve on asset disposal		(13,458)
			<hr/>
	At end of year		37,081
			<hr/>
		CONSOLIDATED	UNIVERSITY
		£'000	£'000
21.	Income and expenditure reserve (excluding pension reserve)		
	At beginning of year	46,474	44,877
	Surplus retained for the year	561	759
	Transfer from revaluation reserve	13,458	13,458
	Transfer to pension reserve	(338)	(338)
	Transfer from deferred capital grants	1,820	1,820
		<hr/>	<hr/>
	At end of year	61,975	60,576
		<hr/>	<hr/>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

		CONSOLIDATED AND UNIVERSITY	
		2012	2011
		£'000	£'000
22. Pension reserve			
Movement in deficit during the year:			
Deficit in scheme at beginning of the year		(30,754)	(41,676)
Movement in year:			
Current service cost		(1,564)	(1,636)
Contributions		3,217	2,606
Past service cost		-	(8)
Curtailment cost		-	-
Other finance charge		(1,315)	(1,748)
Actuarial (loss)/gain		(9,765)	11,708
Deficit in scheme at end of the year		(40,181)	(30,754)

The pension reserve represents the University's share of the deficit in the Bedfordshire County Council Local Government Pension Scheme as detailed in Note 29 (Page 39).

		CONSOLIDATED		UNIVERSITY	
		2012	2011	2012	2011
		£'000	£'000	£'000	£'000
23. Lease obligations					
Commitments under operating leases					
At 31st July, 2012 there were annual commitments under non-cancellable operating leases expiring as follows:-					
Land and buildings					
Within one year		-	-	-	-
Between two and five years		28	41	28	41
In more than five years		758	722	758	722
		<u>786</u>	<u>763</u>	<u>786</u>	<u>763</u>
Other					
Within one year		137	15	2	7
Between two and five years		72	158	19	7
In more than five years		-	-	-	-
		<u>209</u>	<u>173</u>	<u>21</u>	<u>14</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2012	2011	2012	2011
	£'000	£'000	£'000	£'000
24. Capital commitments				
a. Capital expenditure contracted but not provided in the accounts	1,630	126	1,406	126
b. Capital expenditure authorised but not contracted	2,192	4,436	1,683	2,036

	CONSOLIDATED	
	2012	2011
	£'000	£'000
25. Reconciliation of operating surplus / (deficit) before taxation to net cash inflow from operating activities		
Operating surplus/(deficit) before taxation	191	719
Endowment and investment income	(251)	(201)
Interest payable	1,702	2,169
Other pension costs (FRS17 adjustment)	(1,653)	(962)
Depreciation charge	10,225	9,835
Deferred capital grants released	(5,442)	(4,964)
Deficit on disposal of tangible fixed assets	28	60
Foreign exchange (gain) / loss	(353)	60
Impairment of tangible fixed assets	-	821
Movement in working capital		
Stock	(21)	(44)
Work in progress	1,287	(544)
Debtors	(2,724)	2,734
Creditors	1,258	3,148
Deposits and income in advance	4,203	(8,883)
Provisions	(297)	1,738
	3,706	(1,851)
Net cash inflow from operating activities	8,153	5,686

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

		CONSOLIDATED	
		2012	2011
		£'000	£'000
26.	Analysis of changes in loan and finance leases during the year		
	At beginning of year	21,253	22,467
	New leases/loans	-	-
	Capital repayments	(1,665)	(1,488)
	Foreign exchange (gain)/loss	(834)	274
	At end of year	18,754	21,253

		CONSOLIDATED	
		2012	2011
		£'000	£'000
27.	Reconciliation of net cash flow to movement in net funds		
	Increase/(decrease) in cash at bank and in hand	7,398	(1,977)
	Decrease/(increase) in bank overdraft	18	(18)
	Increase/(decrease) in cash	7,416	(1,995)
	Decrease in loans and finance leases	1,665	1,488
	Change in net funds/(debt)	9,081	(507)
	Net debt at beginning of year	(3,936)	(3,265)
	Foreign exchange gain/(loss)	396	(164)
	Net funds/(debt) at end of year	5,541	(3,936)

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

28. Analysis of changes in net funds / (debt)

	At beginning of year	Cash Flows	Other movements	At end of year
	£'000	£'000	£'000	£'000
Cash at bank and in hand including short term deposits	17,335	7,398	(438)	24,295
Bank overdraft	(18)	18	-	-
	<u>17,317</u>	<u>7,416</u>	<u>(438)</u>	<u>24,295</u>
Loans and finance leases within one year	(1,522)	254	-	(1,268)
Loans and finance leases after one year	(19,731)	1,411	834	(17,486)
	<u>(3,936)</u>	<u>9,081</u>	<u>396</u>	<u>5,541</u>

29. 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.

Since October 2011 USS has provided two schemes, the first for existing members of staff at 30th September who are presently members of USS, this scheme has 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) are now provided on a career re-valued benefit basis.

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.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

29. **Pensions** *(continued...)*

USS

It is not possible to identify each participating institution's share of the underlying assets and liabilities of the scheme and hence contributions to the scheme are accounted for as if the scheme was a defined contribution scheme. The cost recognised within the surplus or deficit for the year in the income and expenditure account is equal to the contributions payable to the scheme for the year. The latest actuarial valuation of the scheme was as at 31st March, 2011. The assumptions which had the most significant effect on the result of the valuation were those relating to the rate of return on investments (i.e. the valuation rate of interest) and the rates of increase in salary and pensions. In relation to past service liabilities, the financial assumptions were derived from market yields prevailing at the valuation date. It was assumed that the valuation rate of interest would be 4.4% per annum and salary increases 4.4% per annum. The institution contribution rate required for future service benefits alone at the date of valuation was 16% of salaries. The next formal actuarial valuation is due as at 31st March, 2014 when the rates will be reviewed. Surpluses or deficits that arise at future valuations may impact on the University's future contribution commitment.

The assumptions in relation to future service liabilities and other data which have the most significant effect on the determination of the contribution levels are as follows: -

Latest actuarial valuations	31st March, 2011
Investment returns per annum	4.4%
Salary scale increases per annum	4.4%
Market value of assets at date of last valuation	£32,433.5 million
Proportion of members' accrued benefits covered by the actuarial value of the assets (technical provisions basis)	92%
Proportion of members' accrued benefits covered by the actuarial value of the assets (historic gifts basis)	68%

LGPS

The rate of the University's employer's contributions for LGPS is determined by the actuaries and increased to 17% of pensionable salaries with effect from 1st October 2009. 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.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

29. **Pensions** (continued ...)

LGPS (continued ...)

The figures disclosed below estimated by the actuary as at 31st July, 2012 have been derived by suitable approximation methods from the full actuarial valuation as at 31st March, 2010. 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, 2012 are as follows:-

	2012	2011 %	2010 %
Salary scale increases per annum	3.9	3.9	3.9
Pension increases per annum	2.0	2.7	2.9
Discount rate per annum	4.3	5.3	5.4
Inflation assumption per annum	2.0	2.7	2.9
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	50.0

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

	2012	2011
Retiring today		
Males	21.6	21.6
Females	23.2	23.2
Retiring in 25 years		
Males	23.6	23.6
Females	25.6	25.6

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

	2012		2011		2010	
	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000
Equities	5.5	29,007	7.0	28,298	7.3	31,379
Property	3.7	5,021	5.1	4,898	5.3	4,787
Bonds	3.5	9,483	4.6	14,149	4.8	12,232
Cash	2.8	12,273	4.0	7,075	4.4	4,787
	<hr/> 4.4 <hr/>	<hr/> 55,784 <hr/>	<hr/> 5.8 <hr/>	<hr/> 54,420 <hr/>	<hr/> 6.3 <hr/>	<hr/> 53,185 <hr/>

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, 2012
(continued...)

29. **Pensions** (continued ...)

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

	2012	2011	2010
	£'000	£'000	£'000
Market value of assets	55,784	54,420	53,185
Present value of liabilities	(95,965)	(85,174)	(94,861)
Deficit – net pension liability	<u>(40,181)</u>	<u>(30,754)</u>	<u>(41,676)</u>

	2012	2011
	£'000	£'000
Analysis of the total operating charge:-		
Current service cost	1,564	1,636
Loss due to curtailments	-	-
Past service cost	-	8
Total operating charge	<u>1,564</u>	<u>1,644</u>

Analysis of the amount charged to interest payable:-

Expected return on pension scheme assets	(3,152)	(3,327)
Interest on pension scheme liabilities	4,467	5,075
Pension finance costs	<u>1,315</u>	<u>1,748</u>
Total income and expenditure account charge	<u>2,879</u>	<u>3,392</u>

CRANFIELD UNIVERSITY

NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

29. Pensions (continued ...)

	2012	2011
	£'000	£'000
Analysis of amount recognised in statement of total recognised gains and losses:-		
Actual return less expected return on pension scheme assets	(9,765)	11,708
Experience gains and losses arising on the scheme liabilities	-	-
Change in financial and demographic assumptions underlying the scheme liabilities	-	-
Actuarial gain recognised	<u>(9,765)</u>	<u>11,708</u>
Analysis of movements in the present value of the scheme liabilities:-		
At beginning of year	85,174	94,861
Current service cost	1,564	1,636
Interest cost	4,467	5,075
Contributions by members	620	649
Actuarial losses / (gains)	8,139	(13,131)
Past service (gains)/costs	-	8
Losses on curtailments	-	-
Estimated underfunded benefits paid	-	-
Estimated benefits paid	(3,999)	(3,924)
At end of year	<u>95,965</u>	<u>85,174</u>
Analysis of movement in the market value of the scheme assets:-		
At beginning of year	54,420	53,185
Expected return on assets	3,152	3,327
Contributions by members	620	649
Contributions by the employer	3,217	2,606
Contributions in respect of unfunded benefits	-	-
Actuarial gains/(losses)	(1,626)	(1,423)
Estimated unfunded benefits paid	-	-
Estimated benefits paid	(3,999)	(3,924)
At end of year	<u>55,784</u>	<u>54,420</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2012
(continued...)

29. **Pensions** *(continued ...)*

	2012	2011	2010	2009	2008
Details of experience gains and losses for the year:					
(Loss)/gain on scheme assets:					
Amount (£'000)	(1,626)	(1,423)	3,059	(8,960)	(9,640)
Percentage of scheme assets	(2.9%)	(2.6%)	5.8%	(19.1%)	(18.6%)
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	(1,325)	10,030	(7)	46	1,892
Percentage of the present value of the scheme liabilities	(1.4%)	11.8%	0.0%	0.1%	3.6%
Total (loss)/gain recognised in the statement of total recognised gains and losses:					
Amount (£'000)	(9,765)	11,708	3,783	(17,524)	(5,137)
Percentage of the present value of scheme liabilities	(10.2%)	13.7%	4.0%	(19.4%)	(6.6%)

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.

	CONSOLIDATED	
	2012	2011
	£'000	£'000
30. Access funds		
Funding Council grants	43	20
Disbursed to students	(27)	(1)
	<hr/>	<hr/>
Balance unspent at end of year	16	19
	<hr/>	<hr/>

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

31. **Related party transactions**

The University has taken advantage of the exemption of Financial Reporting Standard 8 (Revised) "Related party transactions" not to disclose transactions between the University and its wholly owned subsidiary undertakings.

Due to the nature of the University's operations and the composition of the Council, it is inevitable that transactions will take place from time to time with organisations in which a Council member may have an interest. All transactions involving organisations in which a member of the Council has an interest are conducted at arm's length and in accordance with the University's Financial Manual and normal procurement procedures.