

Cranfield University

Financial Statements

31st July, 2011



CRANFIELD UNIVERSITY

FINANCIAL STATEMENTS

for the year ended 31st July, 2011

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CRANFIELD UNIVERSITY

OPERATING AND FINANCIAL REVIEW AND TREASURER'S REPORT

FOR THE YEAR ENDED 31ST JULY, 2011

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 2006.

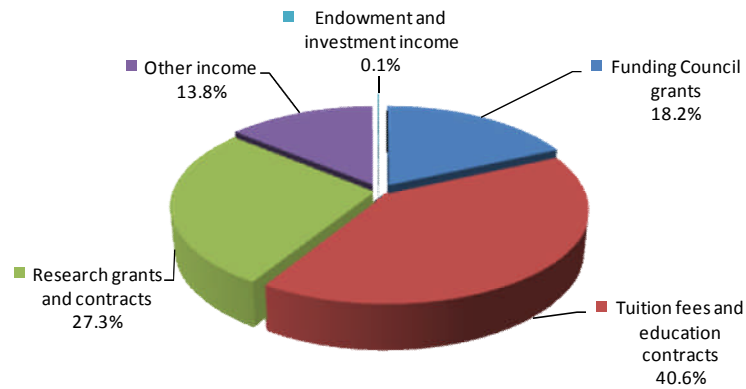
The financial statements presented to Court comprise the consolidated results of the University and its subsidiaries. Subsidiary companies undertake activities which, for legal and commercial reasons, are more appropriately channelled through a limited company and include the development of activities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

Results for the year and position at year end

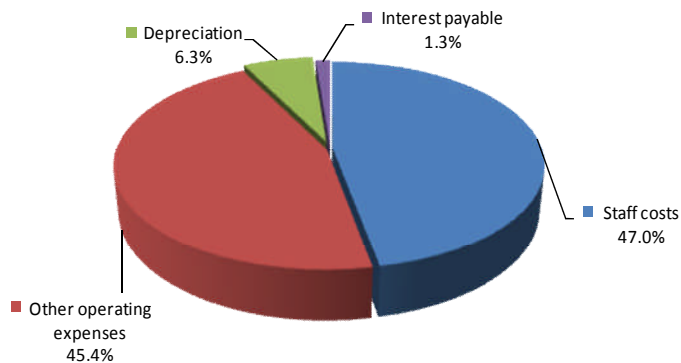
The consolidated results for the year ended 31st July, 2011 are summarised below:-

	2011	2010
	£'000	£'000
Income	169,307	162,391
Expenditure	(168,340)	(162,014)
Surplus for year retained in general reserves	<u>967</u>	<u>377</u>

INCOME 2011



EXPENDITURE 2011



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(continued...)

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

Income was 4.3% higher compared to the previous year. Tuition fees and other income both grew strongly. The surplus for the year retained in general reserves was £967,000 (2010 - £377,000). This was a good financial performance considering the very difficult economic climate faced in the year.

Capital expenditure in the year amounted to £17,849,000 (2010 - £13,197,000). This includes the purchase of Martell House and both academic and infrastructure projects funded by the HEFCE Capital Investment Fund.

The statement of consolidated cash flow shows a decrease in cash of £1,995,000. Net cash inflows from operating activities were £5,686,000 as shown in Note 24.

Consolidated reserves and endowments increased by £23,761,000 (2010 – decrease by £8,113,000) as explained in the statement of total recognised gains and losses on page 21. Included in arriving at this figure, there is an increase of £10,430,000 relating to the revaluation of land on the former Silsoe campus.

Principal risks and uncertainties

The University receives a smaller proportion of its income from HEFCE, which was 18.2% for the 2010/2011 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 'institutional exceptional 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 four years. In this context it was particularly pleasing, in August 2011, to finalise the legal agreements for the phased sale of land on the former Silsoe campus. 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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Key Performance Indicators (KPI's):-

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

	Cranfield Actual 2011	Cranfield Actual 2010	Mean Average HEFCE funded HEI* Forecast 2011
Income growth	4.3%	3.1%	2.3%
Surplus for year as a % of total income	0.6%	0.2%	1.8%
Staff costs before exceptional costs as a % of total income	46.1%	49.2%	55.0%
Cash flow from operating activities as a % of total income	3.4%	0.4%	4.4%
Net liquidity as number of days expenditure	40	46	80
External borrowings as a % of total income	12.6%	13.8%	22.4%
Discretionary reserves (excluding FRS17) as a % of total income	31.9%	31.7%	48.2%

*Source: HEFCE Publication 2011/23.

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 2011/2012

The 2011/2012 financial year will continue to be difficult whilst both the UK and global economy remains 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 2011 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
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(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, 2008, the assets were sufficient to cover 71% of the benefits which had accrued to members after allowing for expected future increases in earnings.

The share of underlying assets and liabilities of the Local Government Pension Scheme (LGPS) is able to be identified as at 31st July, 2011 and there is a net pension liability of £30,754,000 (2010 - £41,676,000) applicable to the University. Details are provided in Note 28.

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 2006. 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. Of the specific examples of charitable activities highlighted in the 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 7% lower than the 2005 level. Last year there was a 4% reduction (year on year) to 16,644 tonnes of CO₂.

Year	2005	2006	2007	2008	2009	2010
Tonnes CO ₂	17,971	18,093	20,166	19,161	17,393	16,664

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

19th October, 2011

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 (somewhat akin to the shareholders of a large public company). 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.

A majority of the members of the Court are from outside the University, representing designated bodies with an interest in the work of the University, including the local community, but the membership also includes representatives of the staff of the University (both academic and non-academic) and the student body.

- **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. The University has reviewed the effectiveness of Council in accordance with the Committee of University Chairs' Governance Code of Practice and concluded that no significant structural or process changes were necessary as a result of this review.
- **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 Combined Code on Corporate Governance issued by the London Stock Exchange in 2003. Whilst the University, being an independent corporation incorporated by Royal Charter and having exempt charitable status, does not fall within the scope of the Combined 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 its Chairman and its Deputy Chairman must be drawn. Also included in its members are representatives of the staff of the University and 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 2010-2011 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 Gareth Williams (Deputy Chairman of Council)
Ms Rachel Abercrombie
Professor Jackie Akhavan (elected 1 March 2011)
Mr Michael Barstow
Mrs Rosemary Burns
Mr John Cridland
Mr Paul Fairweather (appointed 1 June 2011)
Professor Clifford Friend
Major General (Retired) David Jenkins
Professor Joe Lunec (appointed 1 October 2010)
Mr Ian Mather (appointed 1 June 2011)
Dr Sarah Morgan
Mr Nigel Murray
Mr Abdulkarim Nazir (appointed 1 May 2011)
Mr Stephen Odell (appointed 1 June 2011)
Mr Ian Pickering
Dr Andreas Raffel
Dr Frances Saunders
Professor Mark Savill (elected 1 March 2011)
Professor Tom Stephenson
Mr Philip Young

*Ex-officio

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

Mr Salem Brini Ahmed (retired 30 April 2011)
Sir David Brown (retired 31 May 2011)
Mrs Lorraine Clinton (retired 31 May 2011)
Mr Rob Colmer (retired 31 March 2011)
Professor John Hetherington (retired 30 September 2010)
Mr John Kempster (retired 31 May 2011)
Professor David Stephenson (former Pro-Vice-Chancellor – retired 30 September 2011)

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 2011 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 2011 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.

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

19th October, 2011

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.

(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.

(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.

CRANFIELD UNIVERSITY
PRINCIPAL ACCOUNTING POLICIES
(continued...)

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.

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.

CRANFIELD UNIVERSITY

PRINCIPAL ACCOUNTING POLICIES

(continued...)

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 28. 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.

CRANFIELD UNIVERSITY
CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31ST JULY, 2011

	Notes	2011 £'000	2010 £'000
Income			
Funding Council grants	1	30,746	31,679
Tuition fees and education contracts	2	68,751	62,844
Research grants and contracts		46,240	46,314
Other income	3	23,369	21,408
Endowment and investment income	4	201	146
Total income		<u>169,307</u>	<u>162,391</u>
Expenditure			
Staff costs	5	79,214	82,154
Other operating expenses	6	76,489	67,666
Depreciation	7	10,656	9,910
Interest payable	8	2,169	2,892
Total expenditure		<u>168,528</u>	<u>162,622</u>
Surplus / (deficit) after depreciation of assets and before tax		779	(231)
Loss on disposal of assets		(60)	(8)
Surplus / (deficit) after depreciation and disposal of assets before tax		719	(239)
Taxation	9	-	-
Surplus / (deficit) after depreciation and disposal of assets and tax		719	(239)
Transfer from accumulated income within endowments		248	616
Surplus for the year retained within general reserves		<u>967</u>	<u>377</u>

The consolidated income and expenditure account relates wholly to continuing operations. The surplus for the year attributable to the University is £945,000 (2010 – surplus £668,000).

The notes on pages 24 to 44 form part of these accounts.

CRANFIELD UNIVERSITY

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31ST JULY, 2011

		2011	2010
	Notes	£'000	£'000
Surplus for the year retained in general reserves		967	377
Transfer from accumulated income within endowments		(248)	(616)
		<hr/>	<hr/>
Surplus / (deficit) after depreciation and disposal of assets and tax		719	(239)
Actuarial gain recognised	28	11,708	3,783
Revaluation of endowment asset investments:	18	70	83
New endowments	18	834	765
Land revaluation	19	10,430	(12,505)
		<hr/>	<hr/>
Total recognised gains / (losses) relating to the period		23,761	(8,113)
		<hr/>	<hr/>
Reconciliation			
Opening reserves and endowments		49,975	58,088
Total recognised gains / (losses) for the year		23,761	(8,113)
		<hr/>	<hr/>
Closing reserves and endowments		73,736	49,975
		<hr/>	<hr/>

STATEMENT OF HISTORICAL COST SURPLUS AND DEFICITS
FOR THE YEAR ENDED 31ST JULY, 2011

		2011	2010
	Notes	£'000	£'000
Surplus / (deficit) after depreciation and disposal of assets before tax		719	(239)
		<hr/>	<hr/>
Historical cost surplus / (deficit) for the year before tax		719	(239)
		<hr/>	<hr/>
Historical cost surplus / (deficit) for the year after tax		719	(239)
		<hr/>	<hr/>
Historical cost surplus after tax retained within general reserves		967	377
		<hr/>	<hr/>

The notes on pages 24 to 44 form part of these accounts.

CRANFIELD UNIVERSITY
BALANCE SHEETS AT 31ST JULY, 2011

	Notes	CONSOLIDATED		UNIVERSITY	
		2011 £'000	2010 £'000	2011 £'000	2010 £'000
Fixed assets					
Tangible assets	10	179,328	161,794	172,637	159,693
Investments	12	-	-	3,758	-
Total Fixed Assets		<u>179,328</u>	<u>161,794</u>	<u>176,395</u>	<u>159,693</u>
Endowment assets	11	<u>6,049</u>	<u>5,393</u>	<u>7,477</u>	<u>6,821</u>
Current assets					
Stock		208	164	133	104
Debtors	13	33,724	35,914	31,007	32,815
Cash at bank and in hand		17,335	19,202	14,581	16,635
Total current assets		<u>51,267</u>	<u>55,280</u>	<u>45,721</u>	<u>49,554</u>
Creditors: amounts falling due within one year	14	<u>(46,756)</u>	<u>(53,609)</u>	<u>(41,333)</u>	<u>(48,817)</u>
Net current assets		<u>4,511</u>	<u>1,671</u>	<u>4,388</u>	<u>737</u>
Total assets less current liabilities		<u>189,888</u>	<u>168,858</u>	<u>188,260</u>	<u>167,251</u>
Creditors: amounts falling due after more than one year	15	<u>(19,731)</u>	<u>(20,812)</u>	<u>(19,731)</u>	<u>(20,812)</u>
Provisions for liabilities and charges	16	<u>(2,266)</u>	<u>(528)</u>	<u>(2,235)</u>	<u>(496)</u>
Net assets excluding FRS17 pension liability		<u>167,891</u>	<u>147,518</u>	<u>166,294</u>	<u>145,943</u>
Pension liability	21	<u>(30,754)</u>	<u>(41,676)</u>	<u>(30,754)</u>	<u>(41,676)</u>
Net assets including FRS17 pension liability		<u>137,137</u>	<u>105,842</u>	<u>135,540</u>	<u>104,267</u>
Financed by:-					
Deferred capital grants	17	<u>63,401</u>	<u>55,867</u>	<u>63,401</u>	<u>55,867</u>
Endowments					
Expendable	18	<u>7,477</u>	<u>6,821</u>	<u>7,477</u>	<u>6,821</u>
Reserves					
Income and expenditure reserve excluding pension reserve	20	<u>46,474</u>	<u>44,721</u>	<u>44,877</u>	<u>43,146</u>
Pension reserve	21	<u>(30,754)</u>	<u>(41,676)</u>	<u>(30,754)</u>	<u>(41,676)</u>
Income and expenditure account including pension reserve		<u>15,720</u>	<u>3,045</u>	<u>14,123</u>	<u>1,470</u>
Revaluation reserve	19	<u>50,539</u>	<u>40,109</u>	<u>50,539</u>	<u>40,109</u>
		<u>66,259</u>	<u>43,154</u>	<u>64,662</u>	<u>41,579</u>
Total funds		<u>137,137</u>	<u>105,842</u>	<u>135,540</u>	<u>104,267</u>

The financial statements on pages 14 to 44 were approved by the Council on 19th October, 2011 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 44 form part of these accounts.

CRANFIELD UNIVERSITY
STATEMENT OF CONSOLIDATED CASH FLOWS
FOR THE YEAR ENDED 31ST JULY, 2011

		2011	2010
	Notes	£'000	£'000
Net cash inflow from operating activities	24	5,686	607
Returns on investments and servicing of finance			
Interest received		160	126
Interest paid		(401)	(481)
Endowment income	18	41	20
Net cash outflow from returns on investments and servicing of finance		(200)	(335)
Taxation			
UK corporation tax paid		-	-
Capital expenditure and financial investment			
Purchase of tangible fixed assets		(19,086)	(13,547)
Purchase of investments		-	-
Endowment asset investments disposed (net)		248	616
		(18,838)	(12,931)
Proceeds of disposal of tangible fixed assets		7	-
Deferred capital grants received		12,003	8,013
Endowments received		835	765
Net cash outflow from capital expenditure and financial investment		(5,993)	(4,153)
Net cash outflow before use of liquid resources and financing		(507)	(3,881)
Financing			
New loans/leases	25	-	71
Loans and finance leases repaid	25	(1,488)	(1,662)
Decrease in cash in the year	26	(1,995)	(5,472)

The notes on pages 24 to 44 form part of these accounts.

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2011

	CONSOLIDATED	
	2011	2010
	£'000	£'000
1. Funding Council grants		
Recurrent grant	23,641	25,108
Special initiatives	3,660	2,919
Deferred capital grants released		
Buildings (<i>Note 17</i>)	777	687
Equipment (<i>Note 17</i>)	2,668	2,965
	30,746	31,679
Grants are receivable from the Higher Education Funding Council for England. In addition to the above, grants were received for capital purposes of £3,162,000 (2010 - £7,633,000).		
2. Tuition fees and education contracts		
Long course fees	31,589	25,379
Professional development courses	21,233	20,390
Teaching contract	15,929	17,075
	68,751	62,844
3. Other income		
Residences and conference centres	10,185	9,457
Rents from tenant organisations	1,010	954
Deferred capital grants released		
Buildings (<i>Note 17</i>)	828	1,185
Equipment (<i>Note 17</i>)	691	538
Miscellaneous	10,655	9,274
	23,369	21,408
4. Endowment and investment income		
Income from restricted expendable endowments (<i>Note 18</i>)	41	20
Interest on bank deposits	160	126
	201	146

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

		CONSOLIDATED	
		2011	2010
		£'000	£'000
5.	Staff		
	a. Staff costs		
	Wages and salaries	64,530	66,271
	Social security costs	5,471	5,415
	Other pension costs	8,091	8,273
		78,092	79,959
	Exceptional staff restructuring costs	1,122	2,195
		79,214	82,154
	Emoluments of Vice-Chancellor	275	275

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 £35,000 (2010 - £34,000).

	b. The average number of employees during the year, expressed as full-time equivalents, was as follows:-	Number	Number
	Academic	424	430
	Research	273	251
	Technical	184	186
	Administrative and manual	894	933
		1,775	1,800
	c. Remuneration of other higher paid staff, excluding employer's pension contributions, were as follows:-		
	£100,000 - £109,999	16	10
	£110,000 - £119,999	6	4
	£120,000 - £129,999	1	1
	£130,000 - £139,999	2	3
	£140,000 - £149,999	1	2
	£150,000 - £159,999	3	1
	£160,000 - £169,999	0	1
	£170,000 - £179,999	0	1
	£180,000 - £189,999	0	1
	£200,000 - £209,999	0	1
	£230,000 - £239,999	1	0

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	CONSOLIDATED	
	2011	2010
	£'000	£'000
6. Other operating expenses		
Other operating amounts charged include:-		
Equipment expensed	3,335	2,703
Foreign exchange loss	60	56
Auditors' remuneration:-		
- external audit	116	118
- other services including tax	77	36
Council members' expenses	3	4
	3,581	2,937
Included in the above are audit fees in respect of the University only of £70,000 (2010 - £67,000)		
Council members' expenses represent re-imburement 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, £19,768 (2010 - £19,588).		
7. Depreciation		
The depreciation charge has been funded by:-		
Deferred capital grants released	4,964	5,375
General income	5,692	4,535
	10,656	9,910
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	416	432
Finance leases	1	2
Pension finance costs (Note 28)	1,748	2,458
	2,169	2,892
9. Taxation		
Corporation tax charged/(credited) in the year:-		
UK corporation tax at 20.67% (2010 - 21%)	-	-
Prior years	-	-
	-	-

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, 2011
 (continued...)

	CONSOLIDATED	
	2011	2010
	£'000	£'000
9. Taxation (continued ...)		
Surplus on ordinary activities before taxation	967	377
Tax on surplus on ordinary activities multiplied by the lower rate of corporation tax in the UK of 20.67% (2010 - 21%)	200	79
Factors affecting charge:		
University surplus exempt from corporation tax	(196)	(140)
Other permanent differences	(4)	61
Corporation tax charged in the year	-	-

There are no significant unprovided amounts in respect of deferred taxation (2010 - £Nil).

	Land & Buildings			Fixtures, Plant & Machinery	Total
	Freehold	Leasehold	Equipment		
	£'000	£'000	£'000		
10. Tangible assets					
<i>a. Consolidated</i>					
Cost/valuation					
At beginning of year	160,204	1,444	30,521	55,161	247,330
Additions	5,280	-	4,907	7,662	17,849
Disposals	-	-	(571)	(374)	(945)
Revaluation	10,430	-	-	-	10,430
At end of year	125,375	1,444	34,857	62,449	224,125
Cost	125,375	1,444	34,857	62,449	224,125
Valuation	50,539	-	-	-	50,539
Depreciation					
At beginning of year	28,425	1,444	24,775	30,892	85,536
Charge for year	2,853	-	2,518	4,464	9,835
Impairment of assets	821	-	-	-	821
Disposals	-	-	(546)	(310)	(856)
At end of year	32,099	1,444	26,747	35,046	95,336
Net book amount					
At end of year	143,815	-	8,110	27,403	179,328
At beginning of year	131,779	-	5,746	24,269	161,794

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	Land & Buildings		Equipment	Fixtures, Plant & Machinery	Total
	Freehold	Leasehold			
	£'000	£'000			
10. Tangible assets <i>(continued ...)</i>					
<i>b. University</i>					
Cost/valuation					
At beginning of year	159,865	1,444	30,176	50,932	242,417
Additions	5,280	-	4,879	7,144	17,303
Transfer to subsidiaries	(5,282)	-	(62)	(718)	(6,062)
Disposals	-	-	(527)	(310)	(837)
Revaluation	10,430	-	-	-	10,430
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year					
Cost	119,754	1,444	34,466	57,048	212,712
Valuation	50,539	-	-	-	50,539
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Depreciation					
At beginning of year	28,162	1,444	24,458	28,660	82,724
Charge for year	2,826	-	2,492	4,055	9,373
Impairment of assets	821	-	-	-	821
Transfer to subsidiaries	(884)	-	(62)	(596)	(1,542)
Disposals	-	-	(503)	(259)	(762)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	30,925	1,444	26,385	31,860	90,614
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net book amount					
At end of year	139,368	-	8,081	26,385	17,637
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At beginning of year	131,703	-	5,718	22,272	159,693
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The net book amounts of tangible fixed assets include £8,000 (2010 - £17,000) in respect of assets held under finance leases in the consolidated and University accounts respectively. The related depreciation charges for the year was £9,000 (2010 - £27,000). At 31st July, 2011 buildings, fixtures and plant included £887,000 (2010 -£6,313,000) in respect of assets under construction in both the consolidated and University accounts. The book value of Funding Council assets are disclosed in Note 17. Included in land and buildings is a value of £20,500,000 for assets held for resale.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	CONSOLIDATED	UNIVERSITY
	£'000	£'000
11. Endowment assets		
At beginning of year	5,393	6,821
Additions	835	835
Disposals	(249)	(249)
	586	586
Revaluation	70	70
At end of year	<u>6,049</u>	<u>7,477</u>
Endowment assets:-		
Equities (<i>listed</i>)	1,506	1,506
Equities (<i>unlisted</i>)	42	42
Investments in subsidiaries	-	1,428
Land	235	235
Cash at bank and in hand including short term deposits	4,266	4,266
	<u>6,049</u>	<u>7,477</u>

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	
	2011	2010
	£'000	£'000
12. Investment in subsidiaries		
At beginning of year	-	-
Additions	3,758	-
At end of year	<u>3,758</u>	<u>-</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

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

At 31st July, 2011 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	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
13. Debtors				
Work in progress	11,968	11,424	11,473	11,001
Trade debtors	18,897	21,869	13,554	16,658
Prepayments and accrued income	2,856	2,592	2,519	2,197
Other taxes	3	29	-	-
Amounts receivable from subsidiary undertakings	-	-	3,461	2,959
	<u>33,724</u>	<u>35,914</u>	<u>31,007</u>	<u>32,815</u>

Included in amounts receivable from subsidiary undertakings is £697,000 (2010 - £1,588,000) which is recoverable after more than one year.

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
13. Debtors (continued ...)				
Work in progress comprises:-				
Costs incurred to date				
less foreseeable losses	69,557	65,000	62,706	61,152
Less: progress payments	(57,589)	(53,576)	(51,233)	(50,151)
	11,968	11,424	11,473	11,001
 14. Creditors: amounts falling due within one year				
Bank overdraft	18	-	-	-
Bank loans	1,519	1,647	1,519	1,647
Finance lease obligations	3	8	3	8
Amounts owed to subsidiary undertakings	-	-	297	88
Trade creditors and accruals	16,660	14,148	13,197	11,355
Social security costs and other taxes	2,587	2,459	2,100	2,025
Deposits and income in advance	25,969	35,347	24,217	33,694
	46,756	53,609	41,333	48,817
 15. Creditors: amounts falling due after more than one year				
Bank loans	19,725	20,803	19,725	20,803
Finance lease obligations	6	9	6	9
	19,731	20,812	19,731	20,812
<i>a. Bank loans</i>				
Bank loans are repayable:-				
Within one year	1,519	1,647	1,519	1,647
Between one and two years	1,318	1,486	1,318	1,486
Between two to five years	4,015	3,940	4,015	3,940
After five years	14,392	15,377	14,392	15,377
	21,244	22,450	21,244	22,450

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

		CONSOLIDATED		UNIVERSITY	
		2011	2010	2011	2010
		£'000	£'000	£'000	£'000
15.	Creditors: amounts falling due after more than one year <i>(continued ...)</i>				
	<i>b. Finance leases</i>				
	The net finance lease obligations to which the University is committed are:-				
	Within one year	3	8	3	8
	Within two to five years	6	9	6	9
		9	17	9	17

The Group had the following bank loans at 31st July 2011:-

	Interest Rate	Loan Type	Security	Final Repayment	Loan Outstanding £'000
1.	Euro base + 0.18%	Floating	None	15th August 2027	7,939
2.	Sterling base + 0.18%	Floating	None	31st July 2027	10,486
3.	Euro base + 0.75%	Floating	Land and buildings	14th March 2012	61
4.	8.71%	Fixed	Land and buildings	14th March 2022	2,528
5.	8.48%	Fixed	Land and buildings	14th March 2012	153
6.	Interest Free	Salix Fixed	None	1st September 2014	77
					21,244

		Staff restructuring	Other	Total
		£'000	£'000	£'000
16.	Provisions for liabilities and charges			
	<i>a. Consolidated</i>			
	At beginning of year	346	182	528
	Utilised	(346)	(18)	(364)
	Charged to income and expenditure account	598	1,504	2,102
	At end of year	598	1,668	2,266

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	Staff restructuring	Other	Total
	£'000	£'000	£'000
16. Provisions for liabilities and charges			
<i>(continued ...)</i>			
b. <i>University</i>			
At beginning of year	346	150	496
Utilised	(346)	-	(346)
Charged to income and expenditure account	598	1,487	2,085
At end of year	598	1,637	2,235

Staff restructuring will be utilised during the next financial year and relates to the re-organisation of activities at 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
17. Deferred capital grants			
<i>Consolidated and University</i>			
At beginning of year			
Buildings	15,828	24,429	40,257
Equipment	4,487	11,123	15,610
	20,315	35,552	55,867
Cash receivable			
Buildings	-	1,759	1,759
Equipment	903	9,836	10,739
Released to income and expenditure account			
Buildings	(828)	(777)	(1,605)
Equipment	(691)	(2,668)	(3,359)
At end of year	19,699	43,702	63,401
Buildings	15,000	25,411	40,411
Equipment	4,699	18,291	22,990
	19,699	43,702	63,401

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011

		CONSOLIDATED AND UNIVERSITY		
		Restricted Expendable	2011 Total	2010 Total
		£'000	£'000	£'000
18. Endowments				
	At beginning of year			
	Capital	6,054	6,054	5,827
	Accumulated income	766	766	762
		<hr/>	<hr/>	<hr/>
		6,820	6,820	6,589
	New endowments	834	834	765
	Investment income	41	41	20
	Expenditure	(288)	(288)	(636)
	Transfer to deferred capital grants	-	-	-
		<hr/>	<hr/>	<hr/>
		(247)	(247)	(616)
	Increase in market value of investments	70	70	83
		<hr/>	<hr/>	<hr/>
	At end of year	7,477	7,477	6,821
		<hr/>	<hr/>	<hr/>
	Represented by:			
	Capital	6,764	6,764	6,054
	Accumulated income	713	713	767
		<hr/>	<hr/>	<hr/>
		7,477	7,477	6,821
		<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	
19. Revaluation reserve			
	At beginning of year		40,109
	Revaluation		10,430
			<hr/>
	At end of year		50,539
			<hr/>
		CONSOLIDATED	UNIVERSITY
		£'000	£'000
20. Income and expenditure reserve (excluding pension reserve)			
	At beginning of year	44,721	43,146
	Surplus retained for the year	967	945
	Transfer from pension reserve	786	786
		<hr/>	<hr/>
	At end of year	46,474	44,877
		<hr/>	<hr/>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	CONSOLIDATED AND UNIVERSITY	
	2011	2010
	£'000	£'000
21. Pension reserve		
Movement in deficit during the year:		
Deficit in scheme at beginning of the year	(41,676)	(43,619)
Movement in year:		
Current service cost	(1,636)	(1,865)
Contributions	2,606	2,666
Past service cost	(8)	(50)
Curtailment cost	-	(133)
Other finance charge	(1,748)	(2,458)
Actuarial gain	11,708	3,783
Deficit in scheme at end of the year	(30,754)	(41,676)

The pension reserve represents the University's share of the deficit in the Bedfordshire County Council Local Government Pension Scheme as detailed in Note 28 (Page 39).

	CONSOLIDATED		UNIVERSITY	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
22. Lease obligations				
Commitments under operating leases				
At 31st July, 2011 there were annual commitments under non-cancellable operating leases expiring as follows:-				
Land and buildings				
Within one year	-	-	-	-
Between two and five years	41	22	41	22
In more than five years	722	737	722	737
	763	759	763	759
Other				
Within one year	15	19	7	5
Between two and five years	158	207	7	57
In more than five years	-	-	-	-
	173	226	14	62

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

	CONSOLIDATED		UNIVERSITY	
	2011	2010	2011	2010
	£'000	£'000	£'000	£'000
23. Capital commitments				
a. Capital expenditure contracted but not provided in the accounts	126	4,724	126	4,724
b. Capital expenditure authorised but not contracted	4,436	8,472	2,036	8,472

	CONSOLIDATED	
	2011	2010
	£'000	£'000
24. Reconciliation of operating surplus / (deficit) before taxation to net cash inflow from operating activities		
Operating surplus/(deficit) before taxation	719	(239)
Endowment and investment income	(201)	(146)
Interest payable	2,169	2,892
Other pension costs (FRS17 adjustment)	(962)	(621)
Depreciation charge	9,835	9,910
Deferred capital grants released	(4,964)	(5,375)
Deficit on disposal of tangible fixed assets	60	8
Foreign exchange loss	60	56
Impairment of tangible fixed assets	821	-
Movement in working capital		
Stock	(44)	(60)
Work in progress	(544)	(1,026)
Debtors	2,734	1,614
Creditors	3,148	(9,793)
Deposits and income in advance	(8,883)	3,120
Provisions	1,738	267
	(1,851)	(5,878)
Net cash inflow from operating activities	5,686	607

CRANFIELD UNIVERSITY
 NOTES TO THE ACCOUNTS
 FOR THE YEAR ENDED 31ST JULY, 2011
 (continued...)

	CONSOLIDATED	
	2011	2010
	£'000	£'000
25. Analysis of changes in loan and finance leases during the year		
At beginning of year	22,467	24,172
New leases/loans	-	71
Capital repayments	(1,488)	(1,662)
Foreign exchange loss/(gain)	274	(114)
At end of year	21,253	22,467

	CONSOLIDATED	
	2011	2010
	£'000	£'000
26. Reconciliation of net cash flow to movement in net funds		
Decrease in cash at bank and in hand	(1,977)	(5,520)
(Increase)/decrease in bank overdraft	(18)	48
Decrease in cash	(1,995)	(5,472)
Decrease in loans and finance leases	1,488	1,591
Change in net debt	(507)	(3,881)
Net (debt) / funds at beginning of year	(3,265)	642
Foreign exchange loss	(164)	(26)
Net debt at end of year	(3,936)	(3,265)

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

27. **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	19,202	(1,977)	110	17,335
Bank overdraft	-	(18)	-	(18)
	<u>19,202</u>	<u>(1,995)</u>	<u>110</u>	<u>17,317</u>
Loans and finance leases within one year	(1,655)	133	-	(1,522)
Loans and finance leases after one year	(20,812)	1,355	(274)	(19,731)
	<u>(3,265)</u>	<u>(507)</u>	<u>(164)</u>	<u>(3,936)</u>

28. **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. USS provides benefits based on final pensionable salary for academic and related employees of all universities in the United Kingdom and some other employers. LGPS provides similar benefits for other staff of the University. 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, 2011
(continued...)

28. **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, 2008. 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 4.3% per annum. The institution contribution rate required for future service benefits alone at the date of valuation was 14% of salaries and it was agreed that the institution contribution rate would be increased to 16% of salaries with effect from 1st October, 2009. The next formal actuarial valuation is due as at 31st March, 2011 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, 2008
Investment returns per annum	4.4%
Salary scale increases per annum	4.3%
Market value of assets at date of last valuation	£28,843 million
Proportion of members' accrued benefits covered by the actuarial value of the assets	71%

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, 2011
 (continued...)

28. Pensions (continued ...)

LGPS (continued ...)

The figures disclosed below estimated by the actuary as at 31st July, 2011 have been derived by suitable approximation methods from the full actuarial valuation as at 31st March, 2007. 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, 2011 are as follows:-

	2011	2010 %	2009 %
Salary scale increases per annum	3.9	3.9	5.2
Pension increases per annum	2.7	2.9	3.7
Discount rate per annum	5.3	5.4	6.0
Inflation assumption per annum	2.7	2.9	3.7
Members opting for enhanced commutation pre 2008 service	50.0	50.0	50.0
Members opting for enhanced commutation post 2008 service	75.0	50	50

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

	2011	2010
Retiring today		
Males	21.6	20.8
Females	23.2	24.1
Retiring in 25 years		
Males	23.6	22.3
Females	25.6	25.7

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

	2011		2010		2009	
	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000	Long term return expected %	Assets £'000
Equities	7.0	28,298	7.3	31,379	7.3	27,223
Property	5.1	4,898	5.3	4,787	5.3	2,816
Bonds	4.6	14,149	4.8	12,232	5.3	10,795
Cash	4.0	7,075	4.4	4,787	4.3	6,102
	5.8	54,420	6.3	53,185	6.3	46,936

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, 2011
(continued...)

28. **Pensions** *(continued ...)*

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

	2011	2010	2009
	£'000	£'000	£'000
Market value of assets	54,420	53,185	46,936
Present value of liabilities	(85,174)	(94,861)	(90,555)
Deficit – net pension liability	<u>(30,754)</u>	<u>(41,676)</u>	<u>(43,619)</u>

	2011	2010
	£'000	£'000

Analysis of the total operating charge:-

Current service cost	1,636	1,865
Loss due to curtailments	-	133
Past service cost	8	50
Total operating charge	<u>1,644</u>	<u>2,048</u>

Analysis of the amount charged to interest payable:-

Expected return on pension scheme assets	(3,327)	(2,964)
Interest on pension scheme liabilities	5,075	5,422
Pension finance costs	<u>1,748</u>	<u>2,458</u>
Total income and expenditure account charge	<u>3,392</u>	<u>4,506</u>

CRANFIELD UNIVERSITY
NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011
(continued...)

28. Pensions *(continued ...)*

	2011	2010
	£'000	£'000
Analysis of amount recognised in statement of total recognised gains and losses:-		
Actual return less expected return on pension scheme assets	11,708	(2,500)
Experience gains and losses arising on the scheme liabilities	-	-
Change in financial and demographic assumptions underlying the scheme liabilities	-	6,283
	11,708	3,783
Analysis of movements in the present value of the scheme liabilities:-		
At beginning of year	94,861	90,555
Current service cost	1,636	1,865
Interest cost	5,075	5,422
Contributions by members	649	702
Actuarial (gains) / losses	(13,131)	5,559
Past service (gains)/costs	8	(6,233)
Losses on curtailments	-	133
Estimated underfunded benefits paid	-	(19)
Estimated benefits paid	(3,924)	(3,123)
	85,174	94,861
Analysis of movement in the market value of the scheme assets:-		
At beginning of year	53,185	46,936
Expected return on assets	3,327	2,964
Contributions by members	649	702
Contributions by the employer	2,606	2,647
Contributions in respect of unfunded benefits	-	19
Actuarial gains/(losses)	(1,423)	3,059
Estimated unfunded benefits paid	-	(19)
Estimated benefits paid	(3,924)	(3,123)
	54,420	53,185

**NOTES TO THE ACCOUNTS
FOR THE YEAR ENDED 31ST JULY, 2011**
(continued...)

28. **Pensions** (continued ...)

	2011	2010	2009	2008	2007
Details of experience gains and losses for the year:					
Gain/(loss) on scheme assets:					
Amount (£'000)	(1,423)	3,059	(8,960)	(9,640)	1,368
Percentage of scheme assets	(2.6%)	5.8%	(19.1%)	(18.6%)	2.4%
Experience (loss)/gain on scheme liabilities:					
Amount (£'000)	10,030	(7)	46	1,892	42
Percentage of the present value of the scheme liabilities	11.8%	0.0%	0.1%	3.6%	0.1%
Total gain/(loss) recognised in the statement of total recognised gains and losses:					
Amount (£'000)	11,708	3,783	(17,524)	(5,137)	6,118
Percentage of the present value of scheme liabilities	13.7%	4.0%	(19.4%)	(6.6%)	8.1%

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	
	2011	2010
	£'000	£'000
29. Access funds		
Funding Council grants	20	40
Disbursed to students	(1)	(31)
	<hr/>	<hr/>
Balance unspent at end of year	19	9
	<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.

30. **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.