

Financial Statements



07

Report by the Vice-Chancellor and Director of Finance for the year ended 31 July 2007

Scope of the financial statements

The financial statements, presented to the University Council, have been prepared on a consolidated basis and include the results of Lancaster University and its subsidiary companies. Details of the group are listed within note 34.

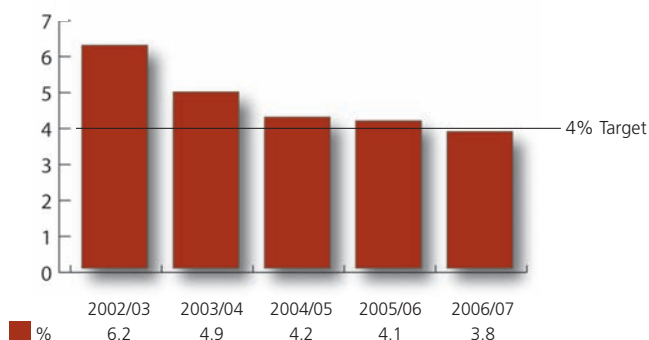
Results for the year

2006/07 proved to be another excellent year financially for the University.

- The underlying surplus for the year was 3.8% of turnover, close to our long-term target of 4%. A year ago we had predicted a surplus of 2% due to the combined effects of the 2006 pay settlement, the introduction of a new national pay framework and increases in energy costs. The improved position was largely the result of higher than expected margin from research contracts combined with the positive effects of the implementation of full Economic Costing.
- We have established a budget with a 4% surplus for 2007/08 and are confident that this can be met.
- During the year we completed negotiations for phase 4 of our student residences project, together with a full refinancing and lease extension. This will result in construction or refurbishment of 963 rooms with expected delivery by September 2008, improvements in cost recovery and better management of utilities costs.
- In June 2007 our credit rating was increased from A- to A by Standard and Poor's as a consequence of our strong academic and financial performance and of progress made with our residences project and wider estates developments.

Performance Indicator

Underlying Surplus (%)

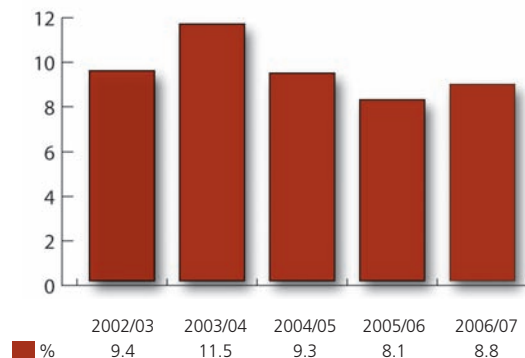


Turnover growth for the year was 8.9%, very similar to the 9.1% achieved in the previous year. Major sources of growth included an increase of 16.0% in tuition fees and support grants, driven by the introduction of the new undergraduate fee regime during the year. Research grants and contracts grew by 7.0%, while other operating income grew by 7.4%. Endowment income and interest receivable grew by 30.3%. This reflected strong cash balances, some increases in interest rates during the year and receipt of the first £1m of a possible £5m donation from the Bowland Trust. This donation is being used to further develop our activities in the areas of Health, Design and Educational Research.

Staff costs grew by 8.8% or £6.6m in the year (excluding the effect of the FRS 17 adjustment on pension costs). This compares to 8.1% last year. Of this increase, £2.4m is attributable to the cost of pay modernisation, £400k is due to increased pension contributions to the LGO pension scheme and £1.2m arises from new approved posts, leaving the underlying increase in staff costs at 3.5%, compared to 4.5% in 2005/06.

Performance Indicator

Staff Cost Increases (%)



Other operating expenses increased by 14.2% or £6.3m. Expenditure in academic departments increased by £5.7m (39.2%), primarily due to increased project activity within departments of £3.3m and an increase of £1.5m in scholarships and bursaries following the introduction of the new tuition fee regime. Expenditure on the maintenance of the estate increased by £0.8m (or 12%) reflecting the continued priority given to this area.

As a result of these developments, our reported historical cost surplus was £5.2m (3.5% of turnover). This compares to £6.1m (4.4% of turnover) in 2005/06. However, these figures include the effects of recent changes to accounting

treatment for endowment income and the effects of FRS 17 which was introduced in the 2005/06 year. In order to calculate the underlying surplus in a way that is consistent with our financial strategy, we need to adjust for these changes as shown in the following table.

	2006/07 £000	2005/06 £000
Income	148,704	136,589
Expenditure	144,961	131,173
Surplus for the year after depreciation of assets at valuation and before taxation	3,743	5,416
Taxation	524	(25)
Difference between historical cost depreciation charge and the revalued depreciation charge	944	685
Historical cost surplus after taxation	5,211	6,076
Additional FRS 17 pension cost	1,119	75
Income from Endowments	(55)	(520)
Deferred taxation release	(554)	-
“Adjusted Surplus” consistent with financial strategy	5,721	5,631

Cash inflow from operating activities rose from £11.6m last year to £15.3m this year. This reflects the continuing strong underlying surplus and the receipt of a lease premium for phase 4 of the residences project. £21.6m was spent on capital investment in our estate, up from £10.8m last year as our capital programme gathers pace. The main developments in the capital programme are summarised below. This investment was offset by receipt of £17.6m in capital grants. Allowing for other financial movements, this produced an increase in cash and short term deposits of £10.1m.

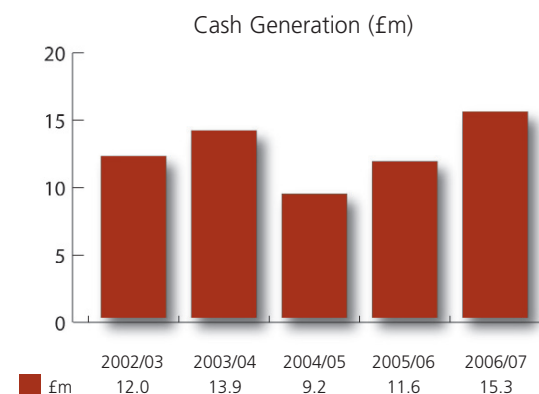
Treasury and investments

The University's financial instruments comprise fixed and current asset investments, borrowings, cash and liquid resources and various items such as trade debtors and trade creditors. The University's approach to treasury management is to identify appropriate instruments to facilitate its operations and to manage the main risks arising from its financial operations, namely liquidity risk and interest rate risk. The main purpose of our borrowings has been to raise finance for the University's capital programme. It is the University's policy that no trading in financial instruments shall be undertaken and speculative practices are avoided.

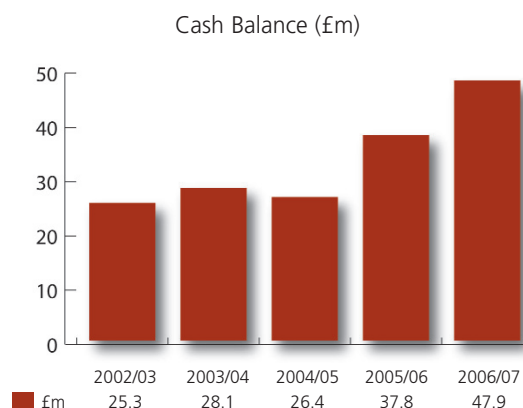
The net cash inflow from operating activities for the year was £15.3m. Interest paid totalled £3.4m and interest received was £2.3m.

Throughout all of the year the University operated with a cash surplus and the overdraft facility was only utilised to match small overnight liquidity requirements. The trend in the cash balance is as follows:

Performance Indicator



Performance Indicator



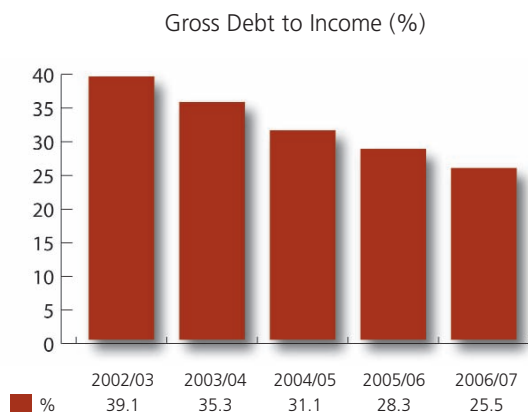
All funds are placed with counter-parties agreed with the University and monitored against minimum credit rating criteria. This is consistent with the University's conservative investment policy for all surplus funds with deposits limited by instrument, amount and maturity across highly rated banks and building societies.

Endowment asset investments increased by £137k to £4.7m. Of these investments, the market value of the funds managed by Cazenove Capital Management increased by £82k to £1.4m at 31 July 2007. Further analysis of all the financial instruments held by the University is shown at note 29.

Balance sheet

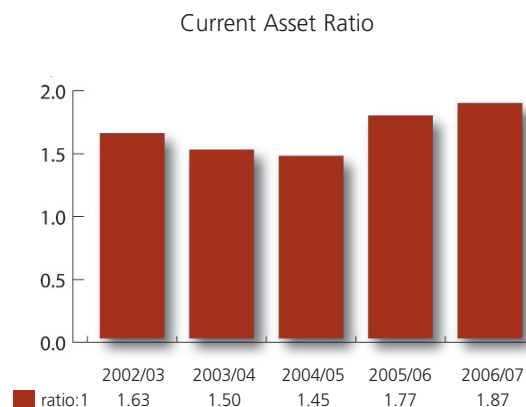
The group balance sheet continues to strengthen with improvements in our two key balance sheet ratios. Gross debt to income fell from 28.3% to 25.5% reflecting income growth and continued capital repayments.

Performance Indicator



The current asset ratio increased from 1.77 to 1.87. This provides a considerable risk margin compared to our covenant level of 1.2, although over the next two years we expect the ratio to reduce back to our target range of between 1.3 and 1.5 as our investment programme progresses and timing differences concerning the receipt of capital grants unwind.

Performance Indicator



Capital programme

The last 12 months have seen important further progress in our capital programme:

- The completion of the third phase of the Lancaster Environment Centre, incorporating a Knowledge Business Building to foster interaction with businesses.
- The refurbishment of Bowland North to provide academic and teaching accommodation for the Faculty of Arts and Social Sciences.
- Completion of a Post-graduate Statistics Centre.
- Financial Close was achieved on phase four of the Residences project, which will provide 963 new rooms by September 2008. As with phases 1-3 this development is "off balance sheet".

Over the next twelve months we expect to see progress on a range of further projects:

- Construction of a new data centre and accommodation for Information Systems Services.
- The initial stages of construction of a new Sports Centre.
- Revitalised public realm at the north end of campus.
- Refurbishment of a range of laboratory facilities.

Future strategy

During the 2007/08 year we will review and update our financial strategy with the objective of building on past successes, while:

- Generating resources for future growth.
- Maintaining the rate of investment in the estate.
- Improving asset utilisation.
- Making best use of the strength of our credit rating.

Conclusion

It is clear that beyond 2009 the HE sector faces greater uncertainties. Lancaster has adopted a position where academic excellence is accompanied by improvements in the estate and sustainable financial planning. The improvement in our Standard & Poor's rating shows our success in combining these factors and is indicative of a financial strength that should position us well for the future.

Professor P W Wellings

Vice-Chancellor

Mr A C Neal

Director of Finance

30 November 2007

Responsibilities of the University Council

In accordance with the University's Charter and Statutes, the Council is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year.

The Council is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements are prepared in accordance with the University's Charter and Statutes, the Statement of Recommended Practice on Accounting for Further and Higher Education Institutions 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 the 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 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 then 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 for 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 prevent and detect fraud
- Secure the economical, efficient and effective management of the University's resources and expenditure.

The Audit Committee, on behalf of Council, has reviewed and made recommendations on the effectiveness of the University's system of internal control, the key elements of which include the preparation of detailed monthly management accounts, comprehensive financial regulations approved by Council and a professional internal audit team. The Audit Committee has reminded Council that any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

Internal Financial Controls

The key elements of the University's system of internal financial control, which is designed to discharge the responsibilities set out above, include the following:

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets
- Monthly reviews of income and expenditure involving variance reporting and updates of forecast outturns
- Clearly defined and formalised requirements for approval and control of expenditure
- A formalised treasury management policy
- Comprehensive financial regulations detailing financial controls and procedures
- A professional internal audit team whose annual programme is approved by the Audit Committee.

Statement of Corporate Governance

The following statement is provided to enable readers of the Financial Statements of the University to obtain a better understanding of the governance and legal structure of the University.

The University endeavours to conduct its business in accordance with the seven Principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities which has been provided by the Committee of University Chairmen in its Guide for Members of Higher Education Governing Bodies in the UK (published in November 2004). The University believes it is fully compliant with the CUC Governance Code of Practice issued in 2004.

The University is an independent corporation, whose legal status derives from a Royal Charter originally granted in 1964. Its objectives, powers and framework of governance are set out in the Charter and its supporting Statutes, approved by the Privy Council.

In addition to the governance framework set out in the Charter and Statutes, the University is bound by the regulation of the London Stock Exchange to the extent of its obligations under the listed debenture stock.

The Charter and Statutes require the University to have three separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** – is the governing body, responsible for the finance, property investments and general business of the University, and for setting the general strategic direction of the institution. The Council has adopted the following Statement of Primary Responsibilities in accordance with the principles contained within the CUC Governance Code of Practice:

The Council is the primary governing body of the University and is responsible for:

- (i) approving the mission of the University and ensuring that it meets the interests of groups who can affect or who are affected by the achievement of the mission;
- (ii) stimulating, challenging, evaluating and endorsing strategies to deliver the University's objectives on an ongoing and financially viable basis;
- (iii) ensuring that there are in place appropriate arrangements for the management of the University, particularly through the appointment of the Vice-Chancellor and the members of the senior management team;

- (iv) ensuring that there are appropriate systems of audit control and accountability;
- (v) approving the principal policies of the University (particularly in the areas of finance, estates and human resources) on the recommendations of its sub-committees, and ensuring that there is an ethical policy framework consistent with the University's Charter and Statutes and mission;
- (vi) making such provision as it thinks fit for the general welfare of students, in consultation with the Senate;
- (vii) ensuring that there is full and appropriate consultation on major issues with internal and external groups with an interest in the University – especially the students, staff, alumni, employers, local, regional and national bodies – and active communication and consultation with Court and Senate;
- (viii) monitoring the University's performance and effectiveness against its objectives through the use of key performance indicators (KPIs) and benchmarking. The Council also regularly reviews its own effectiveness in facilitating the institutional performance.

The Council meets on a regular basis, usually six times a year. At each meeting it generally receives a briefing about issues of key importance to the University. The Council has reserved certain types of decision to itself and these are defined in Ordinance No. 4 (Matters reserved to Council for decision). They include approval of the University's strategic plans, financial targets; determination of key issues such as whether there should be redundancies, and the appointment of the Vice-Chancellor. The Council has delegated other decisions to the Vice-Chancellor or the Finance Committee as defined in the Delegation of Authorities. The Council monitors management and institutional performance through the use of key performance indicators, using a balanced scorecard approach.

It has a majority of members from outside the University (described as lay members), one of whom is the Pro-Chancellor. The Pro-Chancellor chairs meetings of the Council. Also included in its members are representatives of the staff of the University and the student body. None of the lay members receive any payment, apart from the reimbursement of expenses, for the work which they do for the University. The lay members are indicated in Table 1.

Appointments of lay members are made following advertisement and on the basis of recommendations from the Nominations Committee. The only exception to this, made in recognition of the important relationship the University has with Lancaster City Council, is that the City Council may

nominate one of its elected members to serve on the University Council.

Mr B. M. Gray, the Pro-Chancellor, has other significant interests as Chairman of the North West Development Agency.

Professor P. W. Wellings, the Vice-Chancellor, is also a member of the Higher Education Funding Council for England Board and the UK Board of Universities UK.

- **The Senate** – is the academic authority of the University and draws its membership from the academic and academic-related staff and the students of the institution. During 2006/07, it reviewed its effectiveness and implemented minor changes to the membership and to the operation of the meetings. Its role is defined as follows:

The Senate has primary responsibility for the academic work of the University, both in teaching and in research, and for the regulation and superintendence of the education and discipline of the students of the University. It may also discuss any matters relating to the University and may convey its opinions on them to the Council. Its key responsibilities are for:

- (i) the strategic development of the academic activities of the University; and
- (ii) the approval of policies to promote and ensure the quality of the academic work of the University, including teaching and research.

- **The Court** – 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 Court can raise any matters about the University. The Court has an annual meeting at which it receives reports on the working of the University, discusses any matters relating to the University, and conveys its opinion thereon to the Council or the Senate of the University.

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

The Court is reviewing its own effectiveness and a report on this will be made to the meeting of Court in January 2008. This work will conclude a suite of effectiveness reviews of governance.

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 designated officer of the University and in that capacity can be summoned to appear before the Public Accounts Committee of the House of Commons.

Although the Council usually meets six times each academic year, much of its detailed work is initially handled by committees; in particular, the Finance Committee, the Audit Committee, the Estates Committee, the Nominations Committee, and the Human Resources Committee, a sub-set of which also acts as the Remuneration Committee. The decisions and recommendations of these committees are formally reported to the Council.

These Committees, and in some cases others, are formally constituted as committees of the Council with written terms of reference and specified membership, including a significant proportion of lay members (from whom the person in the chair will be selected).

As chief executive of the University, the Vice-Chancellor exercises considerable influence upon the development of institutional strategy, the identification and planning of new developments and the shaping of the institutional ethos. The Pro-Vice-Chancellors and the senior administrative officers all contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Council.

The University maintains a Register of Interests of the following categories of members of the University: the Council, the Audit Committee, Faculty Deans, College Principals, Heads of Departments, principal investigators and Senior Officers, which may be consulted by arrangement with the University Secretary.

The Statutes of the University specify that the University Secretary is named as Secretary of the Council. Any enquiries about the constitution and governance of the University should be addressed to the University Secretary. Copies of the reports on key performance indicators and the Effectiveness Reviews of Council and Senate may also be obtained from the University Secretary.

Attendance at meetings during 2006/07

TABLE 1

Name	Council		Audit Committee		Human Resources Committee (including Remuneration Committee)		Nominations Committee	
	Eligible to attend	Actually attended	Eligible to attend	Actually attended	Eligible to attend	Actually attended	Eligible to attend	Actually attended
* Gray, Mr B. Pro-Chancellor	6	5			4	3	2	1
Vice-Chancellor	6	6			4	4	2	2
Banton, Dr. L. J.	6	6						
* Bryning, Coun. A. C.	5	5						
* Dick, Mr A.	6	6						
Elliott, Mr P. R.	6	4						
* Emslie, Mr R.	3	3			3	3		
* Hadfield, Mr J.	6	6	4	4				
* Henig, Prof. S.	6	6						
* Johnson, Mr G.	6	5			4	3		
* Lee, Dr. M. M.	6	5	4	4			2	1
* Leyton, Mr S. A. J.	6	4	4	4				
* McCarthy, Mr A.	2	0			1	0		
* Middlebrook, Mr G.	6	6						
Morris, Mr H.	6	5						
Palmer, Ms. S.	6	6					2	1
Roca, Mr T.	4	4						
Scowcroft, Mr B.	1	0						
Siewierska, Prof. A.	6	6					2	2
Smith, Ms. C.	2	1						

Name	Council		Audit Committee		Human Resources Committee (including Remuneration Committee)		Nominations Committee	
	Eligible to attend	Actually attended	Eligible to attend	Actually attended	Eligible to attend	Actually attended	Eligible to attend	Actually attended
Smith, Prof. D. B.	6	5						
Stringer, Dr. K. J.	6	5						
* Thomason, Prof. H.	1	1						
* Turner, Mr R.	6	6			4	4		
† Kenworthy, Mr R.			2	2				
† McKenzie, Mr B.			3	2				
∅ Hensman, Mrs C.							2	1
∅ Shennan, Prof. J. H.							2	2
∅ Vaughan, Prof. D.							2	1
∅ Woodhead, Prof. L.							2	2
¥ Mckinlay, Prof. R .D.					4	4		
¥ McMillan, Prof. T. J.					4	3		

* lay member

† co-opted member of Audit Committee

∅ member of Nominations Committee

¥ member of Human Resources Committee

Statement on Internal Control

1. As the governing body of Lancaster University, Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding the public and other funds and assets for which it is responsible, in accordance with the responsibilities assigned to the governing body in the charter and statutes and the Financial Memorandum with the HEFCE.
2. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.
3. The system of internal control is based on an ongoing process designed to identify the principal inherent risks to the achievement of policies, aims and objectives and to evaluate the nature and extent of those risks. Furthermore, the process identifies both preventative and corrective controls in evaluating the residual risk factor. This process has been in place for the year ended 31 July 2007 and up to the date of approval of the financial statements and accords with the HEFCE guidance.

4. As the governing body, Council has responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:
 - (a) Council usually meets six times a year;
 - (b) It receives periodic reports from the chairman of the Audit Committee concerning internal control, and it requires regular reports from managers on the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
 - (c) The Audit Committee receives regular reports from the internal auditors, which include the internal auditors' independent opinion on the adequacy and effectiveness of the institution's system of internal control, together with recommendations for improvement. It also receives presentations from managers of areas associated with the top risks on how they manage risk;
 - (d) A robust risk prioritisation methodology based on risk ranking has been established;
 - (e) An organisation-wide risk register is maintained from which a summary of the top risks are reported to each meeting of Council;
 - (f) During 2006/07 the University Management Advisory Group (UMAG) has overseen a review of risk management in the University. The risk register has been revised to ensure that it is aligned with the University's Strategic Plan. The Council received the new format risk register at its meeting in June 2007.
5. Our review of the effectiveness of the system of internal control is supported by the internal audit which is provided by Deloitte & Touche, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in April 2001. The internal auditors submit regular reports which include the internal auditors' independent opinion on the adequacy and effectiveness of the institution's system of internal control, with recommendations for improvement.
6. Our review of the effectiveness of the system of internal control is also supported by the work of the University Management Advisory Group, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Independent Auditors' Report to the Council of Lancaster University

We have audited the financial statements ("the financial statements") of Lancaster University for the year ended 31 July 2007 which comprise the Consolidated Income and Expenditure Account, the Group and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the historical cost convention (as modified by the revaluation of certain fixed assets) and in accordance with the accounting policies set out in the Statement of Accounting Policies.

Respective responsibilities of the Council and auditors

The Council's responsibilities for preparing the financial statements in accordance with the Accounts Direction issued by the Higher Education Funding Council for England (HEFCE), the Statement of Recommended Practice – Accounting for Further and Higher Education, applicable United Kingdom Law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of the Council's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Council of the institution in accordance with the Charters and Statutes of the institution. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education. We report to you whether in our opinion, income from funding bodies, grants and income for specific purposes and from other restricted funds administered by the institution, have been properly applied in all material respects for the purposes for which they were received, and whether income has been applied in all material respects in accordance with the institution's statutes and where appropriate with the financial memorandum with the Higher Education Funding Council for England. We also report to you if, in our opinion, the institution has not kept proper accounting records, the accounting records do not agree with the financial statements, or if we have not received all the information and explanations we require for our audit.

We read the other information contained in the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other

information comprises only the report by the Vice-Chancellor and Director of Finance, Responsibilities of the University Council and the Corporate Governance Statement.

We also review the statement of internal control (included as part of the Corporate Governance Statement) and comment if the statement is inconsistent with our knowledge of the institution and group. We are not required to consider whether the statement of internal control covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

The maintenance and integrity of the Lancaster University website is the responsibility of the Council, the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and with the HEFCE Code of Practice. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

- (i) the financial statements give a true and fair view of the state of affairs of the institution and the group at 31 July 2007, and of the surplus of income over expenditure, recognised gains and losses and cashflows for the year then ended, and have been properly prepared in accordance with the Statement of Recommended Practice - Accounting for Further and Higher Education, and United Kingdom Generally Accepted Accounting Practice;
- (ii) in all material respects, income from the Higher Education Funding Council for England, grants and income for specific purposes and from other restricted funds administered by the institution have been applied only for the purposes for which they were received;
- (iii) in all material respects, income has been applied in accordance with the institution's statutes and where appropriate in accordance with the financial memorandum (2006/24) with the Higher Education Funding Council for England.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester

3 December 2007

Consolidated Income and Expenditure Account

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Income			
Funding Council grants	1	45,289	43,109
Tuition fees and support grants	2	31,932	27,521
Research grants and contracts		22,403	20,935
Other operating income	3	45,054	41,935
Endowment income and interest receivable	4	4,026	3,089
Total Income		148,704	136,589
Expenditure			
Staff costs - continuing	5 & 10	83,319	75,778
- restructuring costs	8	269	184
Depreciation	10 & 11	7,551	7,651
Other operating expenses	6 & 10	50,344	44,073
Interest payable	7 & 10	3,478	3,487
Total Expenditure		144,961	131,173
Surplus on continuing operations after depreciation of assets at valuation and before taxation		3,743	5,416
Taxation	9	524	(25)
Surplus on continuing operations after depreciation of assets at valuation and taxation		4,267	5,391
Transfer to endowments		(55)	(520)
Surplus after depreciation of assets at valuation and after taxation	22	4,212	4,871

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

Note of Historical Cost Surpluses and Deficits

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Surplus on continuing operations after depreciation of assets at valuation and before taxation		3,743	5,416
Difference between historical cost depreciation and the actual depreciation charge for the year calculated on the revalued amount	21	944	685
<i>Historical cost surplus before taxation</i>		4,687	6,101
<i>Historical cost surplus after taxation</i>		5,211	6,076

The notes on pages 70 to 89 form an integral part of these financial statements.

Balance Sheets as at 31 July 2007

	Note	Group		University	
		2007 £000	2006 £000	2007 £000	2006 £000
Fixed assets					
Tangible assets	11	175,743	162,292	166,139	152,641
Investments	12	37	37	9,397	9,097
		<u>175,780</u>	<u>162,329</u>	<u>175,536</u>	<u>161,738</u>
Endowment asset investments	13	4,703	4,566	4,703	4,566
Current assets					
Stocks		327	293	327	293
Debtors	14	20,236	17,510	20,876	18,432
Investments	15	6,464	6,464	6,464	6,464
Cash at bank and in hand		47,916	37,807	47,886	37,776
		<u>74,943</u>	<u>62,074</u>	<u>75,553</u>	<u>62,965</u>
Creditors: Amounts falling due within one year	16	40,093	35,134	49,549	43,523
Net current assets		<u>34,850</u>	<u>26,940</u>	<u>26,004</u>	<u>19,442</u>
Total assets less current liabilities		<u>215,333</u>	<u>193,835</u>	<u>206,243</u>	<u>185,746</u>
Creditors: Amounts falling due after more than one year	17	42,153	37,973	42,063	37,870
Provisions for liabilities and charges	18	1,884	1,133	1,884	579
Net assets excluding pension liability		<u>171,296</u>	<u>154,729</u>	<u>162,296</u>	<u>147,297</u>
Net pension liability	31	9,083	10,709	9,083	10,709
Net assets including pension liability		<u>162,213</u>	<u>144,020</u>	<u>153,213</u>	<u>136,588</u>

Balance Sheets as at 31 July 2007 - (Continued)

	Note	Group		University	
		2007 £000	2006 £000	2007 £000	2006 £000
Deferred capital grants	19	78,450	65,833	78,450	65,833
Endowments	20	4,703	4,566	4,703	4,566
Reserves					
Revaluation reserve	21	28,338	29,282	26,334	27,239
Income and expenditure account	22	50,722	44,339	43,726	38,950
Total reserves		79,060	73,621	70,060	66,189
Total funds		162,213	144,020	153,213	136,588

The notes on pages 70 to 89 form an integral part of these financial statements.

The financial statements on pages 61 to 89 were approved by the Council on 30 November 2007 and signed on its behalf by:

Mr B M Gray
Pro-Chancellor

Professor P W Wellings
Vice-Chancellor and
Designated Officer

Mr A C Neal
Director of Finance
& Resources

Consolidated Cash Flow Statement

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Net cash inflow from operating activities	23	15,336	11,575
Returns on investment and servicing of finance	24	(666)	(904)
Capital expenditure and financial investment	25	(17,372)	4,713
Management of liquid resources	26	36	642
Financing	27	(635)	(338)
(Decrease)/increase in cash		(3,301)	15,688

Note to Consolidated Cash Flow Statement

The decrease in cash of £3,301k referred to above excludes movements in short-term bank deposits in accordance with the requirements of FRS 1. During the year, short-term deposits increased by £13.4m giving an overall increase in cash at bank and in hand of £10.1m.

	Note	2006/07 £000	2005/06 £000
(Decrease)/increase in cash		(3,301)	15,688
Increase/(decrease) in short-term deposits	25	13,446	(3,639)
Increase in cash and short-term deposits		10,145	12,049

Reconciliation of Net Cash Flow to movement in Net Funds

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
(Decrease)/increase in cash		(3,301)	15,688
Repayment of debt and lease financing	27	635	338
Increase/(decrease) in short-term deposits	25	13,446	(3,639)
Amortisation of debenture costs		(10)	(10)
Movement in net funds in the year		10,770	12,377
Net funds/(debt) at 1 August	28	8,938	(3,439)
Net funds at 31 July	28	19,708	8,938

The notes on pages 70 to 89 form an integral part of these financial statements.

Statement of Consolidated Total Recognised Gains and Losses

For the year ended 31 July 2007

	Note	2006/07 £000	2005/06 £000
Surplus after depreciation of assets at valuation and after taxation	22	4,212	4,871
Appreciation of endowment asset investments	20	82	100
Consolidation of restricted reserves		-	829
Actuarial gain/(loss) in respect of pension scheme	31	1,227	(1,219)
Endowment income retained for year	20	55	520
Total recognised gains relating to the year		5,576	5,101
Prior year adjustment		-	(8,394)
Total gains/(losses) recognised since the last annual report		5,576	(3,293)

Statement of Accounting Policies

1. Accounting Convention

The financial statements have been prepared under the historical cost convention modified by the revaluation of certain fixed assets and in accordance with the Statement of Recommended Practice, Accounting for Further and Higher Education Institutions (SORP) and applicable Accounting Standards. The principal accounting policies, which have been applied consistently, are set out below.

2. Basis of Consolidation

The consolidated financial statements include the financial statements of the University and all subsidiary undertakings for the financial year to 31 July 2007. The consolidated financial statements do not include those of the University of Lancaster Students' Union or the College Junior Common Rooms as the University has no financial interest and no control or significant influence over their commercial and financial policy decisions.

3. Recognition of Income

Income from tuition fees is recognised in the period to which it relates and includes all fees chargeable to students or their sponsors. The costs of any fees waived by the University are included as expenditure in note 10.

Income from grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned.

All income from short-term deposits and endowments is credited to the income and expenditure account in the period in which it is earned. Income from specific endowments not expended in accordance with the restrictions of the endowment is transferred from the income and expenditure account to specific endowments.

Income receivable from the Funding Council is recognised in line with the latest estimates of grant receivable for an academic year. The final grant allocation is determined in the subsequent February, following an audit of the University's activity.

4. Pensions

The University is a member of two externally funded superannuation schemes, the Universities Superannuation Scheme for academic and related staff and the Lancashire County Pension Fund for non-academic staff.

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

Lancashire County Pension Fund

The Lancashire County Pension Fund is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

The Federated System for the Superannuation of Universities

In addition, the University administers its own scheme under the Federated System for the Superannuation of Universities. The defined contribution scheme, which is closed to new employees, purchases life policies for its members. Costs are charged to the income and expenditure account on an accruals basis.

Where the University has committed to provide additional years for early retirees amounts are provided separately on the balance sheet and actuarially reviewed every year.

5. 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 denominated in foreign currencies are translated into sterling either at year end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6. Land and Buildings

Expenditure on land and buildings is capitalised and interest on new loans to fund capital projects is capitalised until the date of completion. Freehold and long leasehold buildings are depreciated over their estimated useful lives of 50 years. 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 income over the expected useful life of the buildings. The buildings were revalued on 31 July 1997. On an ongoing basis, this revaluation is to be regarded as cost under FRS 15, and no future revaluations are to be performed.

7. Minor Works and Refurbishments

From 1 August 1994, the University has capitalised expenditure on minor works and buildings refurbishments at cost and this has been depreciated over its expected useful life of 10 years.

8. Equipment

Equipment costing less than £10k per individual item or group of related items is written off in the year of acquisition. Office furniture is written off in the year of acquisition. All other items of equipment are capitalised and depreciated over their expected useful lives of 5 years.

9. Leases

Operating lease rentals are charged to the income and expenditure account as incurred.

10. Investments

Fixed asset investments are shown in the balance sheet at cost less provision for any impairment, as there is no intention to dispose of the investments. Endowment asset investments are shown in the Balance Sheet at current market value and the movement in value is charged or credited to specific endowments. Current asset investments are shown at the lower of cost and net realisable value.

11. Stocks

Building maintenance, catering, bars, central stationery stocks and heating oil are brought into the accounts at cost price. So far as building maintenance stocks are concerned, each commodity is valued at an average cost price. Neither consumable materials held in academic departments nor library books are included in stock.

12. 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 Section 506(1) of the Taxes Act 1988. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 505 of the Taxes Act 1988 or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

Deferred taxation is fully provided in respect of accelerated capital allowances and other timing differences arising in subsidiary companies.

13. Maintenance of Premises

Routine costs of general repairs and maintenance are charged to the income and expenditure account as incurred.

14. Cash Flows and Liquid Resources

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

Notes to the Financial Statements

	Note	Group	
		2006/07 £000	2005/06 £000
1 Funding Council grants			
Basic recurrent grant		42,693	40,891
Specific grants:			
Project capital allocation		102	20
Released from deferred capital grants	19	2,494	2,198
		45,289	43,109
2 Tuition fees and support grants		£000	£000
Home/EU fees for full-time students		16,206	12,140
Overseas fees for full-time students		13,753	13,556
Part-time fees		891	827
Research training support grants		1,082	998
		31,932	27,521
3 Other operating income		£000	£000
Colleges and residences		7,955	7,929
Other services rendered		20,883	17,418
Other income		15,232	15,577
Released from deferred capital grants	19	984	1,011
		45,054	41,935
4 Endowment income and interest receivable		£000	£000
Income from endowments	24	464	846
Income from donations		1,000	-
Net return on pension scheme assets	31	64	194
Other interest receivable		2,498	2,049
		4,026	3,089

Notes to the Financial Statements - (Continued)

5 Staff costs

	Group	
	2006/07 £000	2005/06 £000
Staff Costs:		
Wages and salaries	68,679	63,375
Social security costs	5,528	5,120
Other pension costs	9,112	7,283
	83,319	75,778

Emoluments of the Vice-Chancellor

	£000	£000
Professor P W Wellings		
Emoluments excluding employer's pension contributions	177	175
Pension contributions	22	17
Total emoluments	199	192

Remuneration of higher paid staff (excluding superannuation contributions and excluding the Vice-Chancellor)

	Number	Number
£100,001 - £120,000	3	3
£120,001 - £140,000	1	-

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

	2006/07 Number	2005/06 Number
Academic and professional	1,344	1,294
Clerical and secretarial	542	540
Manual	212	201
Technical	70	85
Sessional	91	90
	2,259	2,210

Notes to the Financial Statements - (Continued)

6 Other operating expenses

	Group	
	2006/07 £000	2005/06 £000
Academic departments	20,267	14,559
Research sponsored expenses	5,945	5,573
Residences and colleges	640	619
Administration	3,546	4,102
Auditors remuneration	68	62
Auditors remuneration in respect of non-audit services	20	84
Internal audit paid to third parties	66	59
Grants to the students' union	487	464
Insurance	358	409
Estates	7,681	6,867
Information systems services	1,276	1,124
Library	1,734	1,666
Other academic services	67	87
Staff and student facilities	990	917
Subsidiary company expenditure	4,654	5,310
Other operating expenses	2,545	1,816
Operating lease rentals	-	355
	50,344	44,073

Auditors remuneration in respect of the University only is £42k (2006: £46k)

7 Interest payable

	£000	£000
Loans not wholly repayable within five years: - payable by instalments	3,478	3,487

8 Restructuring costs

	£000	£000
Voluntary severance and early retirement costs	269	184

9 Taxation

	Note	£000	£000
United Kingdom corporation tax		30	43
Provision for deferred corporation tax	18	(554)	(18)
		(524)	25

Notes to the Financial Statements - (Continued)

10 Analysis of 2006/07 expenditure by activity

Group	Staff costs £000	Depreciation £000	Other operating expenses £000	Interest Payable £000	Total £000
Academic departments	47,012	-	20,267	-	67,279
Academic services	4,452	-	3,077	-	7,529
Research grants and contracts	12,512	-	5,945	-	18,457
Residences and colleges	1,635	-	640	-	2,275
Administration	11,679	-	12,226	-	23,905
Staff and student facilities	2,522	-	990	-	3,512
Subsidiary company expenditure	1,535	-	4,654	-	6,189
Other services rendered and operating expenses	789	7,551	2,545	3,478	14,363
Additional FRS 17 pension cost	1,183	-	-	-	1,183
Total per income and expenditure account	83,319	7,551	50,344	3,478	144,692

The depreciation charge has been funded by:

	Note	£000
Deferred capital grants released	19	3,478
Revaluation reserve released	21	685
General income		3,388
		7,551

Notes to the Financial Statements - (Continued)

11 Tangible assets

Group	Land and Buildings				Total £000
	Freehold £000	Long Leasehold £000	Refurbishment £000	Equipment £000	
Valuation/Cost					
At 1 August 2006					
Valuation	127,499	2,808	-	-	130,307
Cost	32,699	-	27,385	19,167	79,251
	160,198	2,808	27,385	19,167	209,558
Additions at cost	6,052	-	11,475	3,480	21,007
Disposals	(365)	-	-	(13)	(378)
At 31 July 2007	165,885	2,808	38,860	22,634	230,187
Depreciation					
At 1 August 2006	21,313	504	11,707	13,742	47,266
Charge for year	3,144	56	2,112	1,947	7,259
Disposals	(73)	-	-	(8)	(81)
At 31 July 2007	24,384	560	13,819	15,681	54,444
Net book value at 31 July 2007	141,501	2,248	25,041	6,953	175,743
Net book value at 31 July 2006	138,885	2,304	15,678	5,425	162,292

The freehold land and buildings comprising the main campus and adjacent property at Bailrigg, Lancaster, and other properties in the Lancaster area including long leasehold premises were assessed on the basis of Depreciated Replacement Cost at 31 July 1997 by Gerald Eve, Chartered Surveyors, 7 Vere Street, London, W1M 0JB. The valuation was incorporated in the financial statements at that date.

If the land and buildings had not been revalued they would have been included at the following amounts:

	Group	
	2007 £000	2006 £000
Cost	138,408	132,411
Aggregate depreciation based on cost	22,718	20,223

The value of freehold land included above is £5,275k and is not depreciated. Included in freehold land and buildings is expenditure of £39,028k that is funded from Treasury sources. Should buildings funded from Treasury sources be sold, the University would either have to surrender the proceeds to the Treasury or use them in accordance with the terms of the Financial Memorandum with the HEFCE.

Notes to the Financial Statements - (Continued)

11 Tangible assets (continued)

University	Land and Buildings				Total £000
	Freehold £000	Long Leasehold £000	Refurbishment £000	Equipment £000	
Valuation/Cost					
At 1 August 2006					
Valuation	117,418	2,808	-	-	120,226
Cost	31,793	-	26,785	18,441	77,019
	149,211	2,808	26,785	18,441	197,245
Additions at cost	6,073	-	11,475	3,194	20,742
Disposals	(365)	-	-	-	(365)
At 31 July 2007	154,919	2,808	38,260	21,635	217,622
Depreciation					
At 1 August 2006	19,323	504	11,534	13,243	44,604
Charge for year	2,971	56	2,094	1,831	6,952
Disposals	(73)	-	-	-	(73)
At 31 July 2007	22,221	560	13,628	15,074	51,483
Net book value at 31 July 2007	132,698	2,248	24,632	6,561	166,139
Net book value at 31 July 2006	129,888	2,304	15,251	5,198	152,641

12 Long term investments

	Note	Group		University	
		2007 £000	2006 £000	2007 £000	2006 £000
Investments		37	37	37	37
Shares in group companies	34	-	-	9,360	9,060
At cost 31 July		37	37	9,397	9,097

The increase of £300k within the University relates to the issue of additional share capital within Lancaster University Network Services Ltd.

Notes to the Financial Statements - (Continued)

13 Endowment asset investments

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Equities	1,186	1,071	1,186	1,071
UK gilts and other fixed interest stocks	222	236	222	236
Endowment cash balances	3,295	3,259	3,295	3,259
Total endowment asset investments	4,703	4,566	4,703	4,566
Endowment asset investments at cost	4,517	4,409	4,517	4,409

14 Debtors

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year				
Debtors	17,003	13,280	15,499	11,145
Prepayments and accrued income	3,233	4,230	3,084	3,615
Group debtors	-	-	2,293	3,672
	20,236	17,510	20,876	18,432

15 Investments

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Debt service reserve	5,664	5,664	5,664	5,664
Listed investments	800	800	800	800
	6,464	6,464	6,464	6,464

The debt service reserve is equivalent to eighteen months principal and interest payments relating to the University's 9¾% First Mortgage Debenture and further details are provided at note 29.

The listed investments represent a share portfolio managed by BWD Rensburg. A target rate of return for the portfolio is the FTSE all shares index plus 1%. The market value of the investments at 31 July 2007 was £962k (2006: £873k).

Notes to the Financial Statements - (Continued)

16 Creditors

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due within one year				
Debenture and secured loan	682	619	675	612
Payments received on account	10,327	7,188	10,327	7,188
Creditors	17,666	15,076	16,814	14,726
Social security and other taxation payable	3,476	3,405	3,254	2,840
Accruals and deferred income	7,942	8,846	7,163	7,284
Group creditors	-	-	11,316	10,873
	40,093	35,134	49,549	43,523

The debenture and secured loan may be analysed as follows:

Lender	Date loan obtained	Interest rate	Final repayment date	Balance outstanding £000
9¾% First Mortgage Debenture Stock 2025 Secured loan	April 1995 February 2003	Fixed Variable	April 2025 January 2017	675 7

Notes to the Financial Statements - (Continued)

17 Creditors

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
Amounts falling due after more than one year				
Debenture secured on residential and other property	30,695	31,370	30,695	31,370
Secured loans	6,590	6,603	6,500	6,500
Deferred Income	4,868	-	4,868	-
	42,153	37,973	42,063	37,870

The debenture and secured loan may be analysed as follows:

Lender	Date loan obtained	Interest rate	Final repayment date	Balance outstanding £000
9 ³ / ₄ % First Mortgage Debenture Stock 2025	April 1995	Fixed	April 2025	30,695
Bank loan	February 2003	Variable	January 2017	90
Secured loan	September 2005	Variable	September 2030	6,500

The mid market price of the debenture at 31 July 2007 was £40,938k (2006: £43,714k).

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
The maturity profile of the secured loans was as follows:				
Between 1 and 2 years	751	682	744	675
Between 2 and 5 years	2,748	2,765	2,721	2,739
Over 5 years	33,786	34,526	33,730	34,456
	37,285	37,973	37,195	37,870

Notes to the Financial Statements - (Continued)

18 Provisions for liabilities and charges

Group	Note	Voluntary severance, early retirement and restructuring £000	Deferred taxation £000	Total £000
At 1 August 2006		579	554	1,133
Reclassification of FRS12 provision	31	1,518	-	1,518
Utilised in year		(232)	-	(232)
Transfer from/(to) income and expenditure account		19	(554)	(535)
At 31 July 2007		1,884	-	1,884

The deferred taxation provision arose from a potential liability within Lancaster University Library Services Ltd in accordance with FRS 19. The trade of the library company transferred to the University in May 2007 and the taxation provision is no longer required.

University	Note	Voluntary severance, early retirement and restructuring £000	Deferred taxation £000	Total £000
At 1 August 2006		579	-	579
Reclassification of FRS12 provision	31	1,518	-	1,518
Utilised in year		(232)	-	(232)
Transfer from income and expenditure account		19	-	19
At 31 July 2007		1,884	-	1,884

19 Deferred capital grants

	Group and University		Total £000
	Funding Council £000	Other grants £000	
At 1 August 2006	34,277	31,556	65,833
New grants received	14,519	1,576	16,095
Released to income and expenditure account	(2,494)	(984)	(3,478)
At 31 July 2007	46,302	32,148	78,450

Deferred capital grants include certain grants received with conditions attached in relation to out-put targets which may become repayable if these targets are not achieved.

Notes to the Financial Statements - (Continued)

20 Endowments

Group and University

	Total £000
At 1 August 2006	4,566
Appreciation of endowment asset investments	82
Income for year	463
Expenditure for year	(408)
At 31 July 2007	4,703
	Total £000
Representing:	
Scholarship and prize funds	118
Sir Roland Smith	504
Richardson Institute	102
Iredell bequest	949
Hervouet bequest	213
Ruskin	597
Rank bequest	255
Brunner bequest	214
Sir Alistair Pilkington donation	323
Specific departmental endowments	1,428
	4,703

21 Revaluation reserve

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
As at 1 August	29,282	29,967	27,239	27,871
Transfer from revaluation reserve to general reserve in respect of: depreciation on revalued assets	(685)	(685)	(646)	(632)
Transfer in respect of disposal	(259)	-	(259)	-
At 31 July	28,338	29,282	26,334	27,239

Notes to the Financial Statements - (Continued)

22 Income and expenditure account

	Group		University	
	2007 £000	2006 £000	2007 £000	2006 £000
At 1 August	44,339	39,173	38,950	35,125
Surplus after depreciation of assets at valuation and after taxation	4,212	4,871	2,605	4,412
Consolidation of restricted reserves	-	829	-	-
Release from revaluation reserve	944	685	944	632
Actuarial gain/(loss) in respect of pension scheme	1,227	(1,219)	1,227	(1,219)
Balance at 31 July	50,722	44,339	43,726	38,950

The above reserve includes £1.3m (2006: £1.1m) which is restricted and cannot be used for the general purposes of the University.

23 Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	Note	Group	
		2006/07 £000	2005/06 £000
Surplus for the year		3,743	5,416
Transfer to endowments		(55)	(520)
Depreciation and loss on disposal	11	7,551	7,651
Deferred capital grants released to income	19	(3,478)	(3,209)
Investment income	4	(2,962)	(2,895)
Amortisation of debenture costs		10	10
Interest payable	7	3,478	3,487
Pension cost less contributions payable		1,119	75
Increase in stocks		(34)	(6)
Increase in debtors		(2,525)	(2,843)
Increase in creditors		10,247	2,342
Deferred capital grants accrued		(1,545)	2,216
Decrease in provisions		(213)	(149)
Net cash inflow from operating activities		15,336	11,575

Notes to the Financial Statements - (Continued)

24 Returns on investment and servicing of finance

	Group	
	2006/07 £000	2005/06 £000
Income from endowments	464	846
Other interest received	2,296	1,815
Interest paid	(3,426)	(3,565)
Net cash outflow from returns on investment and servicing of finance	(666)	(904)

25 Capital expenditure and financial investment

	2006/07 £000	2005/06 £000
	Payments to acquire tangible fixed assets	(21,566)
Movement in short-term deposits	(13,446)	3,639
Deferred capital grant received	17,640	11,891
	(17,372)	4,713

26 Management of liquid resources

	2006/07 £000	2005/06 £000
	Movement in endowment cash balances	36

27 Financing

	2006/07 £000	2005/06 £000
	Capital repayment of existing loans	(635)

28 Analysis of net funds

	Note	At 1 August 2006 £000	Cash flows £000	Non-cash changes £000	At 31 July 2007 £000
Cash in hand		37,807	10,109	-	47,916
Endowment asset investments	13	3,259	36	-	3,295
Debt due within 1 year	16	(619)	(63)	-	(682)
Debt due after 1 year	17	(37,973)	698	(10)	(37,285)
		2,474	10,780	(10)	13,244
Current asset investments	15	6,464	-	-	6,464
		8,938	10,780	(10)	19,708

Notes to the Financial Statements - (Continued)

29 Financial Instruments

	Amount	Currency	Weighted average interest rate %	Weighted average period years	Fixed/ variable	Benchmark rate
	£000					
Investments						
Equities	37	Sterling	-	-	-	-
Total per Note 12	37					
Endowment asset investments						
Equities	1,186	Sterling	-	-	-	-
Fixed investment stock	222	Sterling	6.15	-	Fixed	N/A
Cash	3,295	Sterling	-	-	Variable	N/A
Total per Note 13	4,703					
Current asset investments						
Debt service reserve	5,664	Sterling	5.39	-	Variable	-
Equities	800	Sterling	-	-	-	-
Total per Note 15	6,464					
Cash at bank						
Money market deposits	47,455	Sterling	5.62	-	Fixed	-
Currency accounts	3,739	Euro & Dollar	-	-	Variable	-
Endowment cash balances	(3,278)	Sterling	-	-	Fixed	-
Total per balance sheet	47,916					
Creditors due within one year						
Secured loan	7	Sterling	7.25	-	Variable	-
Debenture	675	Sterling	9.75	-	Fixed	N/A
Total per Note 16	682					
Creditors due after one year						
Debenture	30,695	Sterling	9.75	18	Fixed	N/A
Bank loan	90	Sterling	6.49	10	Variable	-
Secured loan	6,500	Sterling	N/A	23	Variable	LIBOR
Total per Note 17	37,285					

Notes to the Financial Statements - (Continued)

30 Operating lease commitments

At 31 July 2007 the Group had annual commitments under operating leases in relation to equipment as set out below:

	Group	
	2006/07 £000	2005/06 £000
Leases expiring between one and five years	-	359

31 University pension schemes

Universities Superannuation Scheme

The institution participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. The institution is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore as required by FRS 17 "Retirement benefits", accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The latest actuarial valuation of the scheme was at 31 March 2005. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie: the valuation rate of interest) and the rates of increase in salary and pensions. In relation to the 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 4.5% per annum, salary increases would be 3.9% per annum (plus an additional allowance for increases in salaries due to age and promotion in line with recent experience) and pensions would increase by 2.9% per annum. In relation to the future service liabilities it was assumed that the valuation rate of interest would be 6.2% per annum, including an additional investment return assumption of 1.7% per annum, salary increases would be 3.9% per annum (also plus an allowance for increases in salaries due to age and promotion) and pensions would increase by 2.9% per annum. The valuation was carried out using the projected unit method.

At the valuation date, the value of the assets of the scheme was £21,740 million and the value of the past service liabilities was £28,308 million indicating a deficit of £6,568 million. The assets therefore were sufficient to cover 77% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Using the minimum Funding Requirement prescribed assumptions introduced by the Pensions Act 1995, the scheme was 126% funded at the valuation date and under the Pension Protection Fund regulations introduced by the Pensions Act 2004 it was 110% funded.

Notes to the Financial Statements - (Continued)

The institution contribution rate required for future service benefits alone at the date of the valuation was 14.3% of pensionable salaries but the trustee company, on the advice of the actuary, decided to maintain the institution contribution rate at 14% of pensionable salaries.

Surpluses or deficits which arise at future valuations may impact on the institution's future contribution commitment. An additional factor which could impact the funding level of the scheme is that with effect from 16 March 2006, USS positioned itself as a "last man standing" scheme so that in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2008. The contribution rate will be reviewed as part of each valuation.

The total pension cost for the institution was £6,483k (2006: £6,041k). The contribution rate payable by the institution was 14% of pensionable salaries.

Lancashire County Pension Fund

The Lancashire County Pension Fund is a funded defined benefit scheme, with the assets held in separate trustee administered funds. The total University contribution for the year ended 31 July 2007 was £1,504k (2006 £1,057k). The current employer contribution rate is 11.9%.

The pensions cost is assessed every three years in accordance with the advice of a qualified independent actuary. The assumptions and other data that have the most significant effect on the determination of the contribution levels are as follows:

Latest actuarial valuation

31 March 2004

Actuarial method

Projected unit

Market value of assets at date of last valuation

£2,449m

Investment returns per annum

6.5%

Pension increases per annum

2.5%

Salary scale increases per annum

4.25%

Proportion of members' accrued benefits covered by the actuarial value of the assets

80%

Notes to the Financial Statements - (Continued)

FRS 17

The following information is based upon the full actuarial valuation of the Lancashire County Pension Fund at 31 March 2004 updated to 31 July 2007 by a qualified independent actuary.

	31 July 2007 %	31 July 2006 %	31 July 2005 %	31 July 2004 %	31 July 2003 %
Inflation	3.2	3.0	2.7	2.8	2.5
Rate of increase in salaries	5.0	4.8	4.5	4.3	4.0
Rate of increase for pensions	3.2	3.0	2.7	2.8	2.5
Discount rate for liabilities	5.8	5.1	5.0	5.7	5.5

The assets in the scheme (of which the University's share is estimated at 1.6%) and the expected returns were:

	Value at 31 July 2007 £000	Value at 31 July 2006 £000	Value at 31 July 2005 £000	Value at 31 July 2004 £000	Value at 31 July 2003 £000
Equities	2,476,584	2,155,936	1,868,064	1,703,416	1,530,558
Bonds	759,384	505,676	673,440	540,531	481,033
Property	259,488	214,988	169,824	156,208	131,191
Cash	206,064	51,476	134,688	-	-
Other	114,480	99,924	81,984	79,345	43,730
Total market value of assets	3,816,000	3,028,000	2,928,000	2,479,500	2,186,512

	Long term rate of return expected at 31 July 2007 %	Long term rate of return expected at 31 July 2006 %	Long term rate of return expected at 31 July 2005 %	Long term rate of return expected at 31 July 2004 %	Long term rate of return expected at 31 July 2003 %
Equities	7.5	7.0	7.5	7.5	7.5
Bonds	5.4	4.8	4.7	5.4	5.2
Property	6.5	6.0	6.5	6.5	6.5
Cash	5.8	4.5	4.8	-	-
Other	7.5	7.0	7.5	4.5	3.75

	31 July 2007 £000	31 July 2006 £000	31 July 2005 £000	31 July 2004 £000	31 July 2003 £000
University's estimated asset share	61,245	55,535	49,612	40,059	36,718
Present value of scheme liabilities	(70,328)	(64,826)	(57,715)	(45,857)	(41,523)
Net pension liability*	(9,083)	(9,291)	(8,103)	(5,798)	(4,805)

* The pension scheme liabilities in prior years' included an amount in respect of early retirees. In 2007, this liability of £1,425k (2006: £1,418k) has been reclassified to provisions (note 18) as it is considered that by the nature of these provisions this a more appropriate accounting treatment.

Notes to the Financial Statements - (Continued)

	Group	
	2006/07 £000	2005/06 £000
Analysis of the amount charged to operating surplus		
Current service cost	(2,648)	(2,223)
Past service cost	(39)	991
Total operating charge	(2,687)	(1,232)
Analysis of amount credited to finance costs		
Expected return on pension scheme assets	3,499	3,184
Interest on pension scheme liabilities	(3,435)	(2,990)
Net return	64	194
Amounts recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	1,431	2,575
Liability (loss)	-	(1,572)
Changes in assumptions underlying the present value of the scheme liabilities	(111)	(2,222)
Actuarial gain/(loss) recognised in the STRGL	1,320	(1,219)
Movement in surplus during the year		
	Note	
Deficit in scheme at beginning of year		(9,509)
Movement in year:		
Current service cost		(2,648)
Contributions		1,504
Past service costs		(39)
Other finance income		64
Actuarial gain/(loss)		1,227
Reclassification to provisions	18	1,518
Deficit in scheme at end of the year		(9,083)
History of experience gains and losses		
Difference between the expected and actual return on assets:		
Amount £000		1,431
% of scheme assets		2.3
Experience gains and losses on scheme liabilities:		
Amount £000		-
% of scheme liabilities		2.4
Total amount recognised in STRGL		
Amount £000		1,320
% of scheme liabilities		1.8

Notes to the Financial Statements - (Continued)

Federated System for the Superannuation of Universities

The Federated System for the Superannuation of Universities is a defined contribution scheme in which the University purchases life policies for its members. Total costs for the year totalled £6,982 (2006: £10,061).

32 Access funds	2006/07 £000	2005/06 £000
As at 1 August	60	25
Funding Council grant	242	422
Interest earned	7	6
	309	453
Disbursed to students	(236)	(393)
Balance unspent at 31 July	73	60

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.

33 Related party transactions

Due to the nature of the University's operations and the composition of the Council (including members drawn from the local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of the Council may have an interest and these are reported as required in each case via the Register of Interests that is annually updated.

All transactions involving organisations in which a member of the Council may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

Notes to the Financial Statements - (Continued)

34 Interests in subsidiary companies

The following information relates to the University's interests in the subsidiary companies consolidated in the financial statements. All companies have a financial year-end of 31 July.

Name of company	Country of registration	Nature of business	Percentage of voting rights held by the University
Pinecrest Developments Ltd	England	Property rental company	100
Lancaster University Consultancy Services Ltd (formerly Mardis Ltd)	England	Provision of consultancy services	100*
Lancaster University Business Enterprises Ltd	England	Engineering testing and venture capital	100*
Landec Ltd	England	Dormant	100*
Lancaster University Library Services Ltd	England	Provision of library services	100*
Lancaster University Developments Ltd	England	Property management company	100
Lancaster University Enterprises Ltd	England	Holding company	100
Lancaster University Network Services Ltd	England	Provision of broadband internet connections	100
Open College of the North West (OCNW)	England	Provision of educational services	-

The companies marked with an asterisk are wholly owned by Lancaster University Enterprises Limited.