

University of Cumbria

Consolidated Financial Statements
For the Year Ended 31 July 2010

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Operating and Financial Review

Scope of the Financial Statements

These Financial Statements comprise the consolidated results of the University and its wholly owned subsidiary companies.

Results for Year

The University made a consolidated surplus before exceptional items of £1.8m for the 2009/10 financial year.

The consolidated Income and Expenditure Account for the year ended 31 July 2010 is summarised below:

	<u>2010</u> <u>£'000</u>	<u>2009</u> <u>£'000</u>
Income	91,360	81,007*
Expenditure including taxation	<u>89,518</u>	<u>90,502</u>
Trading surplus / (deficit)	<u>1,842</u>	<u>(9,495)</u>
Exceptional item: Impairment of Newton Rigg assets	(6,993)	0
Exceptional item: Restructuring	<u>(3,781)</u>	(1,932)
Deficit for the year	<u>(8,932)</u>	<u>(11,427)</u>

*2008/09 income figure includes a prior period adjustment of £1.8m as explained in note 32 to the Financial Statements

2009/10 was a year of significant change for the University. The University has been right-sized, restructured, and has introduced new management in order to turnaround the University's financial performance. The achievement of a surplus before exceptional items begins to reflect the financial impact of these changes.

A key development in 2009/10, which has had a material effect on the financial results, was the University Board's decision to discontinue delivery of Further Education at Newton Rigg, Penrith, and Brampton Road, Carlisle, from 2011/12. Relevant bodies were formally advised of this before the end of the 2009/10 financial year and a project is being led by the SFA to secure a new provider. Due to this, the 2009/10 results include a £7.0m impairment to recognise the reduction in operating life of those assets associated with the provision of further education at Newton Rigg.

The scale of the restructuring programme carried out in year has been significant, and the associate costs are reflected in the exceptional items. The benefits of this action will be visible in the University's future performance. Of course, since HM Government's Comprehensive Spending Review (CSR) on 22 October 2010 the University will need to take further action, but, at the present time, there is a lack of clarity about the precise impacts. Meanwhile the University is already taking action to ensure it is ready to address the future challenges.

The University, despite the significant financial challenges and major change programme to support the turnaround of the financial performance, continued to focus on its core business. It recruited strongly to its teacher education, health and FE based student contracts. Recruitment to the HEFCE contract was also much improved building on 2008/09, following a disappointing recruitment round in 2007/8, the first year of the new University. The first full cohort of University of Cumbria students graduated – ie those who started with the University shortly after it was formed in 2007. The University also underwent a successful Ofsted re-inspection of its FE provision. The University continued to build and develop its

widening participation and outreach work, working in partnership with schools and the local FE Colleges. The University also entered into a partnership with Furness College to help support the development of their new building, and establish an outstanding HE facility on the Furness peninsula. Partnership working with local and regional employers continued to be a key part of the work of the Faculties of the University.

Income

Compared to 2008/09, the University has recorded an increase in income from funding body grants, tuition fees and a small increase from other sources. However, the most significant year-on-year increase is due to the fact that the University successfully appealed against £2.7m of funding body clawback.

Expenditure

Staff costs, excluding voluntary severance payments, were £5.6m lower than in 2008/09. This reflects the impact of the restructuring that took place throughout 2009/10. Staff costs, excluding voluntary severance payments, were 56% of turnover in 2009/10 compared to 70% in 2008/09.

In the medium-term, the University, like other higher education institutions, will face significant cuts in public sector funding. Due to this, the University will continue to review its cost base and seek to realise further recurring savings.

Bursary payments at £4.3m (2008/09: £3.7m) continue to be a significant non-pay cost. This reflects the scheme which the University operates as part of its "Access" agreement, but is also a consequence of a sustained and deliberate widening participation policy.

Balance Sheet

The University carried out a full revaluation of its land and buildings during 2009/10 in line with the relevant accounting standard. An impairment charge was recorded in respect of land and buildings which were given a lower value as part of this exercise compared to 2007. This has led to expenditure of £2.9m which is included in the Income and Expenditure account. Some assets increased in value and this gain of £7.7m is recorded as a credit to the Revaluation Reserve.

Had this valuation not been carried out, the operating surplus before exceptional items would have been £4.8m.

The University's short-term creditor balance includes £8.4m of loans with National Westminster Bank. Certain financial covenants on these loans were breached in 2008/09 and, as such, the University is required to continue to disclose these as being repayable on demand. These financial covenants have not been breached during 2009/10.

The University received a repayable loan from HEFCE during 2009/10. This has been used to fund the restructuring that has taken place and reflects HEFCE's continued support for the institution

The University's cash balance of £10.6m is far stronger than in 2008/09. This reflects the increase in income and reduction in staff costs in year but also the significant cash inflows from HEFCE to fund restructuring and the Nuclear Decommissioning Authority (NDA). The NDA funding has been provided to support the Energy Coast Campus programme and, as such, it is not operational cash. If this funding is excluded from the cash balance, the University's operational cash reserves stand at £3.8m. The University is committed to ensuring that these reserves are further strengthened during 2010/11 and has put measures in place to ensure that cash-flow forecasting is significantly enhanced.

The balance sheet shows that the discretionary reserves of the University based on its past revenue performance now stand at £0.8m (2008/09: £7.2m). Discretionary reserves as a percentage of income is one of HEFCE's indicators of financial sustainability and the University is aware that these reserves must be strengthened through the delivery of its budgeted surplus in 2010/11 and in subsequent years.

Charitable and Political Contributions

The University made no charitable or political contributions during the year.

Capital Projects

The University did not carry out any major capital projects during 2009/10 and, as a result, capital expenditure was greatly reduced in comparison to the previous two years. However, work has begun on developing new Estates and IT strategies which will lead to further capital investment in the future.

Leadership and Governance

Given the significant financial challenges the University faced in 2009/10 following the poor financial performances in 2007/08 and 2008/09 the University Board and senior management benefited from close support and engagement with HEFCE throughout the year.

There was a change in Vice-Chancellor during the year. Professor Peter McCaffery left his post in May 2009. A process is underway to recruit a permanent new Vice-Chancellor. In the meantime Professor Graham Upton, Vice Chancellor at Oxford Brookes from 1997 until 2007, is continuing as interim Vice Chancellor. There were also significant changes in both personnel and structure at Senior Management Team level. New Senior Management Team appointments to take up post in 2010 have been made,

An independent review of the effectiveness of Governance was undertaken, commissioned by the University Board. A key review recommendation was that the Board would benefit from a renewal and refreshing of its membership to strengthen its skills base, particularly in the areas of finance, accounting, business and estates. Following a public search and recruitment process, undertaken by the Board's Nominations Committee, the University appointed a new Chairman and five new non-executive directors onto the Board and three Associate Directors onto its sub committees from 1 October 2010. A further two new non-executive directors joined the Board on 25 November 2010. These new appointments will further enhance governance at the University.

Risks and uncertainties

The measures that have been taken during 2009/10 have stabilised the University's financial position. However, there is uncertainty with regards to shape, size and timing of future funding due to the CSR. The University has anticipated funding cuts in its 2010/11 budget and is working to develop an effective response to both the challenges and opportunities the CSR presents. As part of this, the business plans and academic development plan are both currently subject to further review.

Public Benefit Statement

The University is an exempt charity under the terms of the Charities Act 2006. This Public Benefit Statement has been included as part of the reporting requirements introduced by the Higher Education Funding Council for England (HEFCE) as the principal regulator of English higher education institutions under the Charities Act 2006.

In setting and reviewing its objectives and activities, the University has had due regard to the Charity Commission's guidance on the reporting of public benefit and particularly to its supplementary public benefit guidance on the advancement of education.

The overall aim of the University is the advancement of education in the UK through the undertaking of educational and research activities. The objects of the University set out in its memorandum of Association make specific provisions for the advancement of learning and knowledge by teaching and research and for enabling students to obtain the advantages of university education

The University through its strategic plan, 2007-2012, developed after extensive consultation with staff, students, the Board and external stakeholders, articulates its vision and mission as:

“Working closely with its partners and stakeholders the University is committed to providing an outstanding student experience and to bringing the opportunities and transformational qualities of HE and FE to all who can benefit. The University aims to provide a supportive learning environment in which its students can acquire and develop new skills and knowledge, to equip them for success and fulfilment throughout their lives, wherever they live and whatever they do”

The Strategic Plan sets the academic strategy and student experience at its centre with three key strategic goals. These are:

- Opening Doors and Transforming Lives
 - The University is committed to providing accessible, flexible and professionally relevant learning opportunities to a diverse range of learners and to raise HE participation rates, particularly in Cumbria, including those from low participation and lower socio-economic groups
- Cumbria and Beyond
 - The University is committed to building on and developing the strengths of Cumbria and North Lancashire and to develop and build the skills and knowledge base within Cumbria in support of the socioeconomic and cultural development of the region
- Sustainable Futures
 - The University is committed to ensuring its own business and financial sustainability, to supporting sustainable communities across the region and to promoting environmental sustainability in the University and in the region

A number of key themes underpin the development and delivery of these goals including:

- Providing outstanding learning opportunities
- Delivery of research and scholarship to enhance knowledge, learning and enterprise
- Delivery through partnership to promote and facilitate academic learning opportunities
- Developing and sustaining a vibrant working community
- Developing and sustaining effective and empowering leadership, governance and management

During 2009/10 progress continued to be made towards achievement of the strategic plan objectives.

Opening Doors and Transforming Lives

Students

The University experienced a strong recruitment round for full-time entrants in 2009/10. Currently, the University has about 7,560 undergraduate students, of which over 5,850 are full time. The University has a significant population of part time undergraduate students (currently over 1,700), of which over 1,600 are over the age of 21. Of the current student body, 30% of the total number of students are from Cumbria, and 27.5% are from Lancashire. In terms of part-time students, nearly 42% of all students are from Cumbria. For full time students, 26% are from Cumbria and just over 27% from Lancashire. The HESA data published for 2008/09 indicated that 44% of FT first degree UG at UoC come from lower socio-economic groups and about 16% of FT undergraduates are from low participation neighbourhoods.

Academic

An updated Academic Strategy was approved in support of delivery of the strategic plan and the changing external operating environment.

A portfolio review was undertaken in 2009/10 with a particular emphasis on consolidation and improvement of the University's core academic provision in order to maximise recruitment and retention across the four funding contracts in a no-growth context. Existing and planned programmes were tested for viability to ensure that they were demand led and financially sustainable. This resulted in a number of subject areas being removed from the portfolio.

The University introduced new courses including Complementary Therapy, Sport Therapy and Massage, and Exercise Therapies at Carlisle. All three recruited well. In May 2010 the University and the Nursing and Midwifery Council conjointly validated the revised suite of pre-registration nursing awards. This is an important step towards the all-degree nursing provision by 2013. Following the successful Health Innovation and Education Cluster bid for Cumbria and Lancashire, the University will be taking the lead for Mental Health. Also, the General Social Care Council has approved the new graduate entry route to Social Work.

The University also made significant changes with regards Academic Delivery, which will continue over the next few years. In December 2009 the University announced that it was removing all undergraduate teacher training from the Ambleside campus from 2010/11 and relocating the provision with the teacher training activities already in place at Carlisle and Lancaster, as part of the strategy to focus on campus activities at two core campuses in Carlisle and Lancaster with gateway provision at other locations.. The University has retained and developed the Ambleside Charlotte Mason Building as a Gateway site, allowing important access to the Lake District for Outdoor Study students, and a focus for business and management short courses.

The University has further developed its activities in the West Coast in relation to its areas of strength and related to the important social and economic needs of the sub region. The University is active in education and health on the West Coast through links with local schools, the hospital and health centres.

Research

The Centre for Regional Economic Development (CRED) continued to work on a wide range of projects for external clients. These included a commission for the Economic Development and Regeneration Theme of the Cumbria Improvement and Efficiency Partnership who commissioned CRED to deliver an Action Research and a Learning Development Programme for the Fusion Cumbria Learning Lab Project. CRED also delivered the final evaluation of the Distinctly Cumbria Programme which was funded by the NWDA.

The University confirmed two international visiting fellows: Dr Yasin Dogan from University of Adiyaman, Turkey to observe history teaching in museums, schools and at the University and interview tutor, students, teachers, children and museum educators. Data will be used to elicit and evaluate strategies for informing museum education in Turkey; and Dr Tamara Kudaibergenova from Kyrgyz State Medical Academy in Kyrgyzstan to consider culture and values in health related decision making in the UK and central Asia, and to consider sustainable communities.

The University has also appointed visiting professors Leigh Pomlett, Professor David Seedhouse, Professor Barbara Burgel, Professor Shirley Reveley and Professor Denise Spitzer.

Professor Gill Marshall received an honorary lifetime fellowship from her professional body – the Society of Radiographers in recognition of outstanding services to the profession. Professor Marshall is involved in a revolutionary treatment for Multiple Sclerosis as part of the first national research team to investigate the use of angioplasty/ stenting to see whether the use of the former techniques alleviates CCSVI (chronic cerebrospinal venous insufficiency) and reduces the incidence / severity of MS. This is ground breaking work in the UK.

Widening Participation

The University is committed to widening participation and works extensively with hard to reach groups and those under-represented in HE. As part of its work the University has developed a Foundation Degree in Teaching and Learning Support to support access and progression to students who would otherwise not have been able to gain entry onto the QTS Degree. The Foundation Degree allows them to study part-time and continue to work. This flexibility is vital as most of this group are working parents who have to balance a number of commitments whilst on course. It also allows, through a bridging element, access to the full QTS degree award. The university's campus located within the borough of Tower Hamlets in London continues to improve access for students from low participation neighbourhoods.

The Outreach team at the University developed its own primary school programme for 5 to 8 year olds following its involvement in the regional primary school programme. The programme of activities called 'My First Day at Uni' was supported by a workbook that pupils used during their visit helping them to understand exactly what University is and to raise their aspirations for the future. The workbook includes activities such as my dream job, uni versus school, jargon buster activities, interesting facts, quizzes etc. The campus visit day was designed to be interactive and pupils also took part in a campus tour and graduation ceremony; dressing up in full regalia and receiving a certificate of achievement.

Working with AimHigher Lancashire, the Outreach team organised and delivered a Junior University programme for 60 Year 9 'Gifted & Talented' pupils from a consortium of Blackpool Schools. Despite their 'Gifted & Talented' status, these pupils had been identified as part of the AimHigher cohort as many pupils came from deprived wards in Blackpool. For many of these pupils it was their first visit to a University. There were a number of activities especially designed for the gifted and talented group including activities which focussed their attention on the benefits of Higher Education, Student Life and its associated positive impact on their long term career, whilst simultaneously addressing and allaying negative perceptions and barriers to accessing Higher Education.

Cumbria and Beyond

Partnerships

The University has continued to strengthen and develop its partnership with Cumbria Constabulary in the delivery of a range of awards in Policing and Criminology and in developing research and enterprise capacity in these areas. In relation to its partnerships in Logistics and Supply Chain management the University has appointed a Visiting Professor to support developments.

In the Faculty of Education, the Teacher Education Advancement Network (TEAN) has become a key part of the Centre for Educational Research. TEAN is a collaborative initiative across universities and national organisations involved in teacher education which aims to provide staff development opportunities, a peer-reviewed journal, an annual conference and workshops to benefit teacher educators. It held its first conference in May 2010.

Other partnerships that the University has committed to develop include that with the Mountain Heritage Trust and the British Mountaineering Council to create an accessible collection in Ambleside. The University also entered into an agreement to house the Border TV film and media archive in Carlisle

The University has continued to develop successful partnerships with Theatre by the Lake, Quondam Theatre Company and the Sands Centre with work based learning providers supporting University Foundation degrees. Programme productions have transferred to the Theatre by the Lake in Keswick and at the Lancaster Duke's Playhouse.. The University also supported the Keswick Film Festival and the Words by the Water literature festival in Keswick.

International

The University has continued to develop its international activities. The Faculty of Health, Medical Sciences and Social Care has entered into an agreement for course delivery/consultancy at ACMS in Penang, Malaysia, to start in January 2011. .

The University has signed an agreement with Shih Chien University in Taiwan for students entering the final year of the University's BA Business and Management degree from 2010. The University has entered into a collaborative arrangement for BA Digital Arts with Egg Story Digital Arts Academy in Singapore. Work has also been on-going to establish an international partnership with Robert Kennedy College in Zurich for the joint delivery of an MBA in Leadership and Sustainability.

The University has also a cohort of students from Nepal studying masters level in Forestry.

Business and Enterprise

The University has taken forward the Government's Business and Community agenda and has engaged with hundreds of public, private and not-for-profit organisations across the region and sub-region. The main achievements of the past year have been:

- (1) The knowledge transfer centre achieved higher than anticipated growth, generating 8 new KTPs and over £400k in new revenue streams. Further development and consolidation of enterprise and innovation activity. The university is one of a small number of commissioned 'knowledge providers' to work on the NWDA's Innovation Voucher Scheme.
- (2) The Research and Creative Enterprise Service developed a number of new design opportunities with the private sector
- (3) The Business School developed a Leadership and Management Partnerships Programme 'LEAD' across Cumbria and North Lancashire
- (4) The development and implementation of enterprise and entrepreneurship programmes using the NCGE 'Flying Start' model proved very successful in supporting over 120 students and graduates
- (5) Support to the development of a Young Enterprise 'Team' programme for students with special educational needs

Sustainable Futures

The University has continued to recognise its commitment to demonstrate and encourage sustainable communities both through its activities as an organisation and its impact on the region.

The University commissioned a 300kW biomass boiler which now supplies heating to the student village at Newton Rigg via a new district heating system. This will reduce carbon emissions of the campus by over 15%. Newton Rigg was awarded the Cumbria Business Environment Network Award. The University also secured £40,000 from Cycling England for a veloCampus at Lancaster; this has been successfully initiated. The University has also agreed a project which will establish a Demonstration Test Catchment on the River Eden with the Universities of Lancaster, Durham and Newcastle.

Disclosure of information to auditors

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

Employees

The University's policy is to consult and discuss with employees, through joint negotiating and consultative committee meetings, matters likely to affect employees' interests.

The University has a legal duty to promote equality of opportunity in relation to gender, race and disability and the University actively seeks to prevent discrimination on the grounds of race, gender, disability, religion or belief, age and sexual orientation and any other reasons not relevant to a person's ability to work. The University holds Positive About Disabled People status which guarantees an interview to disabled applicants who meet the minimum essential criteria for a job vacancy. Reasonable adjustments are made to enable disabled staff to work and impact assessments are carried out, taking account of the different equality strands.

Conclusion

The University has responded decisively and effectively to its weak financial position as reported in 2008/09. It was recognised that corrective action had to be made promptly and actions therefore were taken to reduce the University's cost base, strengthen the senior management team and reinforce governance. The benefits of this action will be more visible in the 2010/11 financial statements but the improved current year results in part already reflect the beneficial impact of some of these measures.

The University enters a period in which publicly funded income is likely to contract consequent on the CSR. The University now has improved financial, management and governance processes and these will help to ensure that the University is able to respond effectively to the risks and opportunities it is presented with during 2010/11 and beyond.

Corporate Governance and Internal Control

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

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University conducts its business. Its Board of Directors acts 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 institutions of higher education which has been provided by the Committee of University Chairmen in its Guide for Members of Governing Bodies of Universities and Colleges in England, Wales and Northern Ireland. The University has adopted the CUC Code of Practice. As part of this commitment, the Board has adopted a statement of primary responsibilities which is publicised on the University's web pages at <http://www.cumbria.ac.uk/Services/VCOOffice/governance.aspx>. The Board also applies the principles set out in the combined CUC Code on Corporate Governance as revised in 2009.

The University is a company limited by guarantee and is an exempt charity. The incorporated University's structure of governance is as laid out in its Memorandum and Articles of Association, as revised and implemented on 1 August 2007.

The Memorandum and Articles of Association, require the University to have a Board of Directors and an Academic Board, each with clearly defined functions and responsibilities, to oversee and manage its activities.

- The University Board, which meets at least six times each year, has ultimate responsibility for the management of the University, and, specifically, is responsible for the educational character and mission, strategic direction and finance, property and staffing.
- The University's Board of Directors comprises persons who are appointed in accordance with its Memorandum of Association. The current Chair is Mr Stephen Henwood and the Vice Chair is Mr Euan Cartwright.

The composition of the University Board is 21, independent Directors forming the majority. The membership includes the Vice Chancellor and via open elections a staff director and a student director. No members of the Board receive any reimbursement, other than travel costs, for the work that they do for it.

In March 2010 the University Board commissioned an independent review of the effectiveness of the Board. The review was undertaken in April and May 2010 and its findings and recommendations were considered at special meeting of the Board in June 2010. The review concluded that the processes and procedures which constitute a good governance framework were in place. It acknowledged that the Board had been operating in exceptionally challenging circumstances, but concluded that there had been shortcomings both in management and governance of the University, though it noted a clear sense that the Board had been operating more effectively since September 2009 when the full seriousness of the situation was appreciated. It also concluded that the Board would benefit from a renewal and refreshing of its membership to strengthen the skills base, particularly in the areas of finance, accounting, business and estates.

The Board accepted the findings of the report and agreed an action plan to respond to the recommendations. The Board approved a recommendation to refresh and strengthen the Board through the targeted recruitment of new Board members with particular expertise and experience in the areas of finance and accounting and business. The Chair of the Board agreed to stand down along with six other Directors to allow new Directors to be appointed. Following a public search and recruitment process, undertaken by the Board's Nominations Committee, the University appointed a new Chairman and three new non-executive directors onto the Board and three Associate Directors onto its sub committees from 1 October 2010. A further two non-executive directors joined the Board on 25 November 2010.

The University Board of Directors who held office during the year were as follows:

The Venerable Peter Ballard	Chairman (to 30 September 2010)
Mr Stephen Henwood	Chairman (w.e.f 1 October 2010)
Mr Euan Cartwright	Vice Chairman
Very Revd Mark Boyling	(w.e.f. 10 March 2010)
Mr Bill Broekhuizen, MBE	
Mr Ian Bullough	(to 30 September 2010)
Dame Alexandra Burslem DBE JP DL	
Mr Robert Clarke, OBE	
Mr Andrew John Collier, CBE	(to 31 July 2010)
Mr Darren Connor	Staff Representative
Mr Alan Cooper, OBE	(to 30 September 2010)
Dr Stephen Curl	(w.e.f 1 October 2010)
Dr Hilary Crowe	(w.e.f 25 November 2010)
Mr Geoffrey Donnelly	(w.e.f 1 October 2010)
Mr Thomas Drummond	Student Representative (w.e.f 1 November 2010)
Mr Ed Elvish	
Mr Bill Hamilton	(to 30 September 2010)
Ms Carole Heatly	(to 30 September 2010)
Mrs Claire Hensman	(w.e.f. 25 November 2010)
Mr Brian Hetherington	
The Revd Dr Canon David Jenkins	(to 30 November 2009)
Lord Roger Liddle	
Mrs Patricia Lowrie	(to 30 September 2010)
Prof Peter McCaffery Vice Chancellor	(until 19 May 2009)
Bishop James Newcome	
Mr Mark Renwick-Smith	(w.e.f 1 October 2010)
Mr John Robb	Student Representative (to 31 July 2010)
Mr William Sang	
Ms Barbara Stephens, OBE	
Prof Graham Upton	(Interim Vice Chancellor w.e.f 24 May 2010)

- Subject to the overall responsibility of the University Board, the Academic Board has oversight of the academic affairs of the University and draws its members from staff and students of the University. It is concerned with general issues relating to the teaching, professional and research work of the institution.
- It is the University Board's responsibility to bring independent judgement to bear on issues of strategy, performance, resources and standards of conduct.
- Throughout the gestation and early development of the University, the Board benefited from the guidance and support of a Funders Forum. The members of this body were HEFCE, LSC, NWDA, NDA.

The University's Board of Directors has overall responsibility for the University's system of internal control and for reviewing its effectiveness. The system is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of policies, aims and objectives, to evaluate the likelihood of those risks being realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place at the University of Cumbria for the year ended 31 July 2010 and up to the date of approval of the annual report and accounts.

The University Board has undertaken the following actions:

- Delegated day to day responsibility for the maintenance of a sound system of internal control to the Vice Chancellor and through him the University's Senior Management Team. This system supports achievement of the University's policies, aims and objectives, whilst safeguarding the public funds and assets for which the Board is responsible. Any material weaknesses or breakdowns in internal control must be reported to the University Board.
- Reviewed and updated the risk management strategy and policy.

- Agreed where principal management responsibility rests for risk management.
- Considered, approved, up-dated and kept under review its risk register
- Commissioned the Audit Committee to provide oversight of risk management issues.
- Invited the Audit Committee to provide advice on the effectiveness of the establishment and implementation of risk management.
- Agreed with the external providers of the internal audit function appropriate audit planning arrangements and also audit methodology and approach, so that the audit function conforms to the latest professional standards reflecting the adoption of risk management.

The University Board has ensured that its meeting calendar and agenda enable risk management and internal control to be considered on a regular basis during the year so that a full risk and control assessment could be undertaken before reporting on the year ended 31 July 2010.

The University Board receives regular reports from the chairman of the Audit Committee concerning internal control, in the light of regular reports from the internal auditors, and from managers on the steps they are taking to manage risks in their areas of responsibility.

In addition to the actions mentioned above, the University has revised its approach to risk management to ensure it is aligned to its overarching strategic performance and risk management framework. Via Audit Committee further work is being undertaken to review risk management to ensure it is fit for purpose reflecting the University's position in the changed internal and external operating environment and to ensure Risk Management is being embedded in the work of the new Senior Management Team and through it the new University Management Team.

The University has an internal audit function 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 2004. The internal auditors submit regular reports which include their independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. The internal audit function reports to the Audit Committee and, for management purposes, to the Registrar and Secretary.

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the institution who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The Chief Executive Officer is the Vice Chancellor who has a general responsibility to the University Board for the maintenance of a sound system of internal control, organisation, direction and management 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.

As chief executive, 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. Other senior staff contribute in various ways to this aspect of the work, but the ultimate responsibility for what is done rests with the Vice Chancellor.

Professor Peter McCaffery, the Vice Chancellor, left the University in May 2010 and Professor Graham Upton was appointed as Interim Vice Chancellor in May 2010.

The University's Board of Directors met seven times in 2009/10. It was supported in its work by a number of subcommittees, including the Strategy and Resources Committee, the Audit Committee, the Nominations Committee, the Remuneration Committee, Employment Policy Committee and a FE Committee. All of these Committees are formally constituted with terms of reference. They are composed of Directors of the University Board, other than staff or student Directors, one of whom is the Chair. The Audit Committee has an additional Associate Director, an external member, with appropriate expertise, who is not a member of the University Board. The Strategy and Resources Committee has two subcommittees, the Enterprise Sub Committee and the Capital Investment Sub Committee to oversee particular complex areas of work, identified as strategically important and therefore potential risk areas.

They are composed with Directors of the University Board, one of whom is chair, together with up to two associate Directors with appropriate external expertise.

Following the independent review of the effectiveness of Governance undertaken in May 2010, commissioned by the University Board, the Board also agreed proposals to revise its Committee structure from 1 October 2010. The key change was to separate the responsibilities of the Strategy and Resources Committee into two new Committees – Finance and Resources Committee and Strategy and Planning Committee. The former has responsibility for advising and recommending to the Board on financial, estates and ICT capital matters. It recommends to the University Board the University's annual revenue and capital budgets and monitors performance in relation to the approved budgets and overall performance against the strategic plan. It meets up to ten times per year. The latter, meeting at least three times a year, focuses on strategy, planning and performance and for advising the Board accordingly.

The Employment Policy Committee meets at least three times a year. The Committee inter alia considers and recommends to the University Board on matters of Human Resource strategy and policy and monitors performance in relation to the approved HR Strategy. It also considers and recommends to the University Board on matters in respect of Health and Safety strategy and policy and Equality, Diversity and Inclusivity strategy and policy. In 2009/10 a Voluntary Severance Committee comprising members of Employment Policy Committee and other Board Directors oversaw the voluntary severance process to ensure appropriate governance scrutiny and oversight of the process and to ensure appropriate use of University funds.

The FE Committee was established in August 2009 to ensure appropriate Board detailed scrutiny and oversight of the University's FE provision. The Committee's expertise was augmented by the appointment of two Associate Directors, approved by the Board via the recommendation of the Nominations Committee.

The Nominations Committee considers nominations for appointment to the Board and its subcommittees. In 2009/10 Nominations Committee met to consider and approve the appointment of two Associate Directors to the newly formed FE Committee. During the 2009/10 year two Directors resigned from the Board resulting in two vacancies. One of these was the result of the incumbent Vice Chancellor leaving in May 2010 with an interim successor taking up post in May 2010. Following the agreement of the Board to the recommendation in the independent review of governance to refresh and renew the Board membership, Nominations Committee oversaw a public search and recruitment exercise which led to the Board approving the appointment of a new Chair and five new Directors to the Board, plus some new Associate Directors to the Board's sub committees.

The Remuneration Committee determines the remuneration and conditions of service of the most senior staff, including the Vice Chancellor. It met on two occasions in 2009-10.

The Audit Committee meets at least six times a year, with the University's external and internal auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans.

Audit Committee also receives and considers reports from the Funding Councils as they affect the University's business and monitors adherence to the regulatory requirements. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members of the Committee and the Committee also meets the internal and external auditors on their own for independent discussions.

The Audit Committee also receives regular reports from the internal audit service, which include recommendations for improvement. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal financial control. The University Board receives regular reports from the Audit Committee which include recommendations for improvement. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

The External Audit Management Letter for the 2008/09 financial year identified the need for urgent work to be undertaken to address significant weaknesses identified with respect to the financial internal controls and systems and for the progress made in respect of student management information to be

continued and further improved. These issues were considered by Audit Committee and the Board during 2009/10. A revised internal audit plan was agreed by Audit Committee in January 2010 to undertake an enhanced programme of work to reflect the significant control and systems weaknesses identified. The work was again supported by the University's internal auditors and was subject to review by the Audit Committee.

At its November 2009 meeting, the University Board carried out the annual assessment for the year ended 31 July 2009 by considering documentation from the Audit Committee.

In considering the year, and taking account of the new membership, the Audit Committee concluded that it had addressed the full range of issues appropriate to its remit and that it had from January 2010 been operating increasingly effectively.

The Audit Committee Annual Report for 2009/10 noted that the Committee worked proactively to discharge its responsibilities and to report on its work to the Board. Given the University's business performance in its first two years of operation and the serious financial challenges the University has faced in 2009/10, together with the much more challenging external operating environment, the Committee recognised the need for it and the Board to continue to have in place enhanced governance scrutiny and oversight to ensure there are effective plans and systems in place to manage the risks. The Committee, while recognising much work has been undertaken to improve the quality, robustness and consistency of financial and student contract management information, was clear that further work must be undertaken. The Committee is not complacent. It recognises that given the increased risks facing the University, through its very changed and challenging operating environment, the Committee needs to ensure further work is undertaken as a priority in 2010/11 to ensure the risks and controls framework is adequate

The work undertaken in the year and as highlighted in the External Audit Management Letter for 2008/09 demonstrated that the University has problems with its internal controls and systems, particularly financial. In the light of this the Audit Committee reviewed the risks to the University and identified the need for urgent work to be undertaken to address the significant weaknesses identified with respect to the financial internal controls and systems and for the progress made in respect of student management information to be continued and further improved. Since then sound progress has been made to address these areas, but there is not yet sufficient evidence available from Internal Audit to give assurance, hence the limited assurance opinion from Deloitte, with which the Audit Committee concurs. Nonetheless the Committee noted that the External Audit Management letter for 2009/10 acknowledged the significant progress made in 2009/10, in particular from January 2010 onwards, noting "a significant improvement in internal controls over the year".

On the basis of the information provided to it, the Committee recommended to the Board that the management action put in place to address these issues identified in respect of the internal controls and systems should continue to be given the highest priority and that full support be given to the Vice Chancellor and his senior management team in taking forward this work. Subject to this work being undertaken, and the continuing work to strengthen governance and management, the Committee believes the University will be able to place reliance on the internal control and risk management systems in the University. The Committee noted that it and the Board have in 2009/10 given the significant financial challenges had due regard to going concern issues and the Board's fiduciary responsibilities. In the light of these considerations and taking account of external advice and the opinion of External Audit and that the University continues to be a going concern.

Given this, the Committee advised the University Board that its responsibilities which were reflected in the statement accompanying the financial statements for the year 2009/10 have been discharged.

The University maintains a Register of Interests of Directors of the University Board and University Management Team members which may be consulted by arrangement with the Secretary to the University Board. This is currently being updated to ensure all new Board Directors and the new Management Team members complete on appointment the register.

The University Board has considered and approved a Public Disclosure Policy which can be found within the Human Resources Handbook and an Anti Fraud Policy both of which can be found at www.cumbria.ac.uk.

The Secretary to the University Board, who is also a member of the Senior Management Team, provides independent advice on matters of governance to the Board and all Directors. Furthermore, the Directors are able to procure independent professional advice, as may be necessary, at the University's expense.

By Order of the University Board

.....
MR STEPHEN HENWOOD - CHAIRMAN OF THE BOARD OF DIRECTORS

.....
PROF. GRAHAM UPTON - VICE-CHANCELLOR AND CHIEF EXECUTIVE

Date: 25 November 2010

Responsibilities of the Board of Directors of the University of Cumbria

In accordance with the Education Reform Act 1988 and the Memorandum and Articles of Association and Articles of Government, the Board of Directors is responsible for the administration and management of the affairs of the University of Cumbria and is required to present audited financial statements for each financial year. This also includes ensuring the operation of an effective system of internal control.

The Board of Directors 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 revised Instrument and Articles of Government, the Audit Code of Practice issued by the Higher Education Funding Council for England, the Statement of Recommended Practice on Accounting in Higher and Further 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 Board of Directors of the University of Cumbria and in accordance with Company Law, the University Board of Directors through its designated office holder (the Vice Chancellor), is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.

In causing the financial statements to be prepared, the University Board of Directors is responsible for ensuring that:

- suitable accounting policies are selected and applied consistently;
- judgments 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 Board of Directors is satisfied that the University has adequate resources to continue for the foreseeable future: for this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The University Board of Directors is responsible for taking reasonable steps to:

- ensure that funds from the Higher Education Funding Council, the Training and Development Agency for schools and the Learning and Skills Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and the Funding Memorandum with the Agency and any other conditions which the Funding Council or Agency 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 of Cumbria and to prevent and detect fraud;
- secure the economical, efficient and effective management of the University's resources and expenditure.

Independent auditors' report to the Board of Directors of the University of Cumbria

We have audited the financial statements of the University of Cumbria for the year ended 31 July 2010 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses and the related notes for the year ended 31 July 2010 set out on pages 23 to 28. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Board of Directors, as a body in accordance with paragraph 13(2) of the University's Articles of Government and section 124B of the Education Reform Act 1988 and to the company's members as a body in accordance with Chapter 3 of Part 1 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Board of Directors 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 Directors, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Responsibilities set out on page 17, the University Board of Directors is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with Accounts Direction issued by the Higher Education Funding Council for England, The Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and International Standards on Auditing (UK and Ireland). Those auditing standards require us to comply with the Auditing Practices Board's (APB'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 directors; and the overall presentation of the financial statements. It also includes those audit matters specified within the Audit Code of Practice issued by the Higher Education Funding Council for England.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and the parent company's affairs at 31 July 2010 and of the Group's deficit of income over expenditure for the year then ended;
- the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Statement of Recommended Practice: Accounting for Further and Higher Education and the Companies Act 2006.

Opinion on regulatory matters

In our opinion:

- in all material respects, income from the Higher Education Funding Council for England, the Training and Development Agency for Schools the Training and Development Agency for Schools and the Learning and Skills Council, grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 2010 have been applied for the purposes for which they were received; and
- in all material respects, income during the year ended 31 July 2010 has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the Higher Education Funding Council for England, the funding agreement with the Training and Development Agency for Schools and the funding agreement with the Learning and Skills Council and its successor bodies.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion, the information given in the Operating and Financial Review and Report of the Board of Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting reports have not been kept;
- the University's financial statements are not in agreement with the accounting records and returns;
- certain disclosures of directors' remuneration specified by law are not made; and
- we have not received all the information and explanations we require for our audit.

Trevor Rees (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
St James Square
Manchester
M2 6DS

Statement of Principal Accounting Policies

The principal accounting policies adopted in the preparation of the consolidated financial statements are set out below.

Basis of Preparation

These financial statements have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education 2007 (the SORP) and in accordance with applicable Accounting Standards. They conform to guidance published by the Higher Education Funding Council for England.

Basis of Accounting

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

Basis of Consolidation

The consolidated financial statements include the University and its subsidiary undertakings for the financial year to 31 July 2010. The financial statements of the Students' Union are not consolidated as it is a separate entity over which the University does not have control or significant influence.

Recognition of Income

Income from research grants, contracts and other services rendered is included to the extent of the completion of the contract or service concerned. This is generally equivalent to the sum of the relevant expenditure incurred during the year and any related contributions towards overhead costs.

All income from short-term deposits is credited to the income and expenditure account in the period in which it is earned.

Income from specific endowments and donations is included to the extent of the relevant expenditure incurred during the year, together with any related contributions towards overhead costs.

Recurrent grants from the Funding Councils are recognised in the period to which they relate.

Income from tuition fees is recognised in the period for which it is received and includes all fees payable by students or their sponsors.

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

Pension Schemes

Retirement benefits for employees of the University of Cumbria are provided by defined benefit schemes which are funded by contributions from the University and employees. Payments are made to the Teachers' Pension Scheme (TPS) for academic staff and to the Local Government Pension Scheme (LGPS) for support staff. These are both independently administered schemes. The TPS is administered by the Government and the LGPS is administered by Lancashire Pension Service.

Contributions to the TPS are charged to the income and expenditure so as to spread the cost of pensions over employees' working lives with the University in such a way that the pension cost is a substantially level percentage of current and future pensionable payroll. The contributions are determined by qualified actuaries on the basis of quinquennial valuations using a prospective benefit method.

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

Tangible Fixed Assets

a) Land and Buildings

Land and Buildings are stated at valuation. Valuations take place every five years with an interim valuation in the third year after a full valuation.

Buildings are depreciated over their expected lives of 50 years. Land is not depreciated.

Assets under construction are not depreciated.

b) Furniture and Equipment

Furniture and equipment, excluding computers, costing less than £2,000 (including any irrecoverable VAT) per individual item or group of related items, is written off to the income and expenditure account in the year of acquisition. All other furniture and equipment is capitalised at cost and is generally depreciated over five years.

c) Computer Equipment

Computer equipment, costing less than £2,000 (including any irrecoverable VAT) per individual item or group of related items, is written off to the income and expenditure account in the year of acquisition. All other computer equipment is capitalised at cost and is generally depreciated over three years.

d) Capital Grants

Where assets are acquired or constructed 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 assets.

e) Impairments

A review for impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

f) Repairs and Maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously recognised standard of performance is recognised in the income and expenditure account in the period it is incurred.

Leased Assets

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Leasing agreements which transfer to the University substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright and are capitalised at their fair value at the inception of the lease and depreciated over the shorter of the lease term or the useful economic lives of equivalently owned assets. The capital element outstanding is shown as obligations under finance leases.

The finance charges are allocated over the period of the lease in proportion to the capital element outstanding. Where finance lease payments are funded in full from funding council capital equipment grants, the associated assets are designated as grant-funded assets.

Provisions

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

Stock

Stocks are valued at the lower of cost or net realisable value.

Taxation Status

The University is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore it meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Chapter 3 Part 11 Corporation Tax Act 2010 or Section 256 of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied exclusively to charitable purposes. Subsidiary companies are liable to corporation tax.

The University is partially exempt in respect of Value Added Tax, so that it can only recover a minor element of VAT charged on its inputs. Irrecoverable VAT on inputs is included in the costs of such inputs and added to the cost of tangible fixed assets as appropriate, where the inputs themselves are tangible fixed assets by nature.

The University's subsidiary companies are subject to corporation tax and VAT in the same way as any commercial organisation.

Investments

Listed investments held as fixed assets or endowment assets are stated at market value. Current asset investments, which may include listed investments, are stated at the lower of their cost and net realisable value.

Agency Arrangements

Funds the University receives and disburses as paying agent on behalf of a funding body or other body, are excluded from the income and expenditure statement where the University is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

UNIVERSITY OF CUMBRIA

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £'000 (Restated)
Income			
Funding body grants	1	45,666	40,792
Tuition fees and education contracts	2	30,526	26,096
Research grants and contracts	3	82	192
Other income	4	15,073	13,899
Endowment and investment income	5	13	28
Total income		91,360	81,007
Expenditure			
Staff costs	6	50,852	56,404
Other operating expenses		28,877	28,107
Depreciation	10	4,878	4,177
Impairments	10	2,946	0
Interest and other finance costs	7	1,965	1,814
Total expenditure	8	89,518	90,502
Surplus / (Deficit) after depreciation of tangible fixed assets and before tax		1,842	(9,495)
Taxation		0	0
Surplus / (Deficit) before exceptional items		1,842	(9,495)
Exceptional items: continuing operations			
Restructuring	9	(3,781)	(1,932)
Impairment of Newton Rigg assets	9	(6,993)	0
Deficit for the year retained within general reserves		(8,932)	(11,427)

All items of income and expenditure arise from continuing operations

The 2008/09 income figure has been restated due to a prior period adjustment. This adjustment, which has had the effect of increasing 2008/09 income by £1.8m, related to the release of a deferred capital grant. This adjustment is further explained in Note 20.

UNIVERSITY OF CUMBRIA

STATEMENT OF GROUP HISTORICAL COSTS SURPLUSES AND DEFICITS
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £'000 (Restated)
Deficit on continuing operations before taxation		(8,932)	(11,427)
Difference between historical cost depreciation and the actual charge for the year calculated on the revalued amount	20	259	258
Historical cost deficit for the year before taxation		<u>(8,673)</u>	<u>(11,169)</u>
Historical cost deficit for the year after taxation		<u>(8,673)</u>	<u>(11,169)</u>

UNIVERSITY OF CUMBRIA

STATEMENT OF GROUP TOTAL RECOGNISED GAINS AND LOSSES
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £000 (Restated)
Deficit on continuing operations after depreciation of assets, disposal of assets and tax		(8,932)	(13,251)
Prior period adjustment	20	0	1,824
Unrealised surplus on revaluation of fixed assets and investments	20	7,701	0
Impairment of existing revaluation reserve	20	(6,049)	0
New endowments	19	15	50
Expenditure of endowments	19	(16)	(34)
Reduction in pension scheme liabilities	30	4,366	0
Actuarial gain / (loss) in respect of pension schemes	30	(2,620)	892
Total recognised gains / (losses) relating to the year		<u>(5,535)</u>	<u>(10,519)</u>
Reconciliation			
Opening reserves and endowments		(1,925)	8,594
Total recognised losses for the year		(5,535)	(10,519)
Closing reserves and endowments		<u>(7,460)</u>	<u>(1,925)</u>

The 2008/09 income figure has been restated due to a prior period adjustment. This adjustment, which has had the effect of increasing 2008/09 income by £1.8m, related to the release of a deferred capital grant. This adjustment is further explained in Note 20.

UNIVERSITY OF CUMBRIA

BALANCE SHEET
AS AT 31 JULY 2010

	Notes	2009/10		2008/09 (Restated)	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Fixed assets					
Tangible assets	10	68,000	67,933	78,212	78,092
Investments	11	14	230	10	230
		<u>68,014</u>	<u>68,163</u>	<u>78,222</u>	<u>78,322</u>
Endowment assets	12	<u>136</u>	<u>136</u>	<u>137</u>	<u>137</u>
Current assets					
Stocks	13	296	51	254	63
Debtors	14	3,509	4,128	3,541	3,994
Cash at bank and in hand		10,588	10,261	317	91
		<u>14,393</u>	<u>14,440</u>	<u>4,112</u>	<u>4,148</u>
Less creditors: amounts falling due within one year	15	(34,032)	(34,042)	(28,627)	(28,648)
Net current assets / (liabilities)		<u>(19,639)</u>	<u>(19,602)</u>	<u>(24,515)</u>	<u>(24,500)</u>
Total assets less current liabilities		48,511	48,697	53,844	53,959
Debtors: amounts falling due after more than one year	14	0	29	0	668
Less creditors: amounts falling due after more than one year	16	(6,692)	(6,692)	(4,416)	(4,416)
Less: provisions for liabilities	17	(826)	(826)	(855)	(903)
Total net assets excluding pension liability		<u>40,993</u>	<u>41,208</u>	<u>48,573</u>	<u>49,308</u>
Net pension liability		(22,475)	(22,475)	(21,948)	(21,948)
Total net assets including pension liability		<u>18,518</u>	<u>18,733</u>	<u>26,625</u>	<u>27,360</u>
Deferred capital grants	18	25,974	25,974	28,550	28,550
Endowments					
Expendable	19	9	9	9	9
Permanent		127	127	128	128
		<u>136</u>	<u>136</u>	<u>137</u>	<u>137</u>
Reserves					
Income and expenditure account excluding pension reserve	20	816	1,057	7,216	7,973
Pension reserve		(22,475)	(22,475)	(21,948)	(21,948)
Income and expenditure account including pension reserve		<u>(21,659)</u>	<u>(21,418)</u>	<u>(14,732)</u>	<u>(13,975)</u>
Revaluation reserve		14,067	14,041	12,670	12,648
Total funds		<u>18,518</u>	<u>18,733</u>	<u>26,625</u>	<u>27,360</u>

The financial statements were approved by the University Board on 25 November 2010 and were signed on its behalf on that date by:

Stephen Henwood, Chairman of the Board of Directors

Professor Graham Upton, Vice Chancellor

UNIVERSITY OF CUMBRIA

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £000 (Restated)
Net cash inflow / (outflow) from operating activities	21	5,833	(3,617)
Returns on investments and servicing of finance	22	(599)	(826)
Capital expenditure and financial investment	23	481	4,648
Financing	24	4,555	(343)
Increase / (decrease) in cash in the year	25	<u>10,270</u>	<u>(138)</u>
Reconciliation of net cash flow to movement in debt			
Increase / (decrease) in cash in the year		10,270	(138)
Change in debt	24	(4,555)	343
Change in net debt		<u>5,715</u>	<u>205</u>
Net funds / (debt) at 1 August		(10,246)	(10,451)
Net funds / (debt) at 31 July	25	<u>(4,531)</u>	<u>(10,246)</u>

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £000 (Restated)
1 Funding body grants			
Recurrent grant			
Gross Higher Education Funding Council (HEFCE)		19,054	18,580
Clawback relating to the current year		(192)	(1,313)
Clawback relating to the previous year		0	(333)
Release of prior year clawback accrual		2,656	0
Net HEFCE		<u>21,518</u>	<u>16,934</u>
Learning Skills Council (LSC)		4,225	3,910
Training and Development Agency (TDA)		13,140	14,732
Specific grants			
HEFCE		3,345	2,513
LSC - Work Based Learning		0	66
TDA - Subject Knowledge Enhancement		352	2
Deferred capital grants released in year			
Buildings	18	434	358
Equipment	18	2,652	453
Prior period adjustment	32	0	1,824
		<u>45,666</u>	<u>40,792</u>
2 Tuition fees and education contracts			
Full-time home and EU students		16,777	14,048
Full-time international students		508	351
Part-time students		2,423	1,996
		<u>19,708</u>	<u>16,395</u>
Education contracts		10,818	9,701
		<u>30,526</u>	<u>26,096</u>
3 Research grants and contracts			
Research councils and charities		82	192
		<u>82</u>	<u>192</u>
4 Other income			
Residences		3,399	2,957
Catering		2,050	1,804
Conferences		416	675
Release from deferred capital grants	18	376	229
Release of NDA funding	29	893	1,612
Other income		7,939	6,622
		<u>15,073</u>	<u>13,899</u>
5 Endowment and investment income			
Income from short term investments		13	28
		<u>13</u>	<u>28</u>

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

	Notes	2009/10 £'000	2008/09 £'000
6 Staff costs			
Salaries		41,901	45,364
Social security costs		3,024	3,471
Pension costs (including FRS 17 adjustment)	30	5,927	7,569
Total		50,852	56,404

	2009/10 Number	2008/09 Number
Average staff numbers by major category		
Academic departments	515	536
Support services	802	874
	1,317	1,410

The numbers disclosed above relate to full-time equivalents

	2009/10 £'000	2008/09 £'000
Restructuring costs		
Costs associated with major restructuring that took place in year	3,781	1,932

	2009/10 £	2008/09 £
Annual emoluments of the Vice-chancellor		
Salary	178,916	207,988
Benefits	0	6,563
	178,916	214,551
Pension contributions	17,625	22,123
	196,541	236,674

There were two Vice-chancellors in office during the year. Peter McCaffrey was in post from 1 July 2009 to 19 May 2010 and received emoluments of £142,625. Since 21 May 2010, Graham Upton has been the University's Interim Vice-Chancellor. In the period from 21 May the University has paid £53,916 in fees to an interim provider for the services of Professor Graham Upton. During the short intervening period there was an Acting Vice-chancellor who was an existing member of Directorate.

Compensation paid to the Peter McCaffrey for loss of office amounted to £70,000 and this amount is excluded from the Annual emoluments of the Vice-Chancellor as stated above.

Annual remuneration of higher paid staff (other than the Vice-Chancellor), excluding employer's pension contributions, was within the ranges set out below

	2009/10 Number	2008/09 Number (restated)
£100,000 to £109,999	1	1
£110,000 to £119,999	0	0
£120,000 to £129,999	0	0
£130,000 to £139,999	1	0
£140,000 to £149,999	1	0
£150,000 to £159,999	0	0
£160,000 to £169,999	0	0
	3	1

The 2008/09 figures have been restated to exclude employer's pension contributions.

The table above discloses payments made to an interim provider for the services of the Interim Director of Finance (£130,411) and the Interim Director of HR / Change Management (£148,237)

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	Notes	2009/10 £'000	2008/09 £'000
7 Interest and other finance costs			
Loans wholly repayable within five years		538	708
Repayable wholly or partly in more than five years		72	145
Finance leases		2	1
FRS 17 Adjustment: Net interest on pension liabilities	30	1,353	960
		<u>1,965</u>	<u>1,814</u>

8 Analysis of total expenditure by activity

Academic departments		40,335	42,088
Academic services		7,920	8,811
Administration and central services		30,745	29,580
Premises		5,768	7,042
Residences, catering and conferences		3,446	2,898
Research grants and contracts		343	508
Impairments		9,939	0
Others		1,796	1,507
		<u>100,292</u>	<u>92,434</u>

Other operating expenses include:

External auditors' remuneration in respect of audit services		119	68
External auditors' remuneration in respect of non-audit services		175	73

In year operating lease rentals

Land and buildings		556	654
Other		854	472

9 Exceptional items

Restructuring costs	6	3,781	1,932
Impairment of Newton Rigg assets	10	6,993	0
		<u>10,774</u>	<u>1,932</u>

For more details of the exceptional items, please see the notes that are referenced above.

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10 Tangible assets

	Freehold Land and Buildings £'000	Furniture and Equipment £'000	Motor Vehicles £'000	Computers £'000	Assets in the Course of Construction £'000	Total £'000
Consolidated						
Cost and valuation						
At 31 July 2009	72,992	5,998	502	7,592	1,963	89,047
Additions - at cost	1,009	2,059	67	145	0	3,280
Transfers	602	497	0	864	(1,963)	0
Transfers to Income and Expenditure Account	(344)	(8)	0	(2)	0	(354)
Gain on revaluation	5,545	0	0	0	0	5,545
Impairments	(17,609)	(410)	0	0	0	(18,019)
Disposals	0	0	(3)	0	0	(3)
At 31 July 2010	62,195	8,136	566	8,599	0	79,496
Depreciation						
At 31 July 2009	2,646	2,979	401	4,784	25	10,835
Charge for the year	1,492	1,143	70	2,173	0	4,878
Transfers to Income and Expenditure Account	0	0	0	0	(25)	(25)
Written back on revaluation	(4,138)	(51)	0	0	0	(4,189)
Disposals	0	0	(3)	0	0	(3)
At 31 July 2010	0	4,071	468	6,957	0	11,496
Net book value						
At 31 July 2010	62,195	4,065	98	1,642	0	68,000
At 31 July 2009	70,346	3,019	101	2,808	1,938	78,212
University						
Cost and valuation						
At 31 July 2009	72,913	5,724	394	7,594	1,963	88,588
Additions - at cost	875	2,030	67	145	0	3,117
Transfers	602	497	0	864	(1,963)	0
Transfers to Income and Expenditure Account	(344)	(8)	0	(2)	0	(354)
Gain on revaluation	5,545	0	0	0	0	5,545
Impairments	(17,400)	(410)	0	0	0	(17,810)
Disposals	0	0	(3)	0	0	(3)
At 31 July 2010	62,191	7,833	458	8,601	0	79,083
Depreciation						
At 31 July 2009	2,645	2,731	309	4,786	25	10,496
Charge for the year	1,489	1,137	68	2,173	0	4,867
Transfers to Income and Expenditure Account	0	0	0	0	(25)	(25)
Written back on revaluation	(4,134)	(51)	0	0	0	(4,185)
Disposals	0	0	(3)	0	0	(3)
At 31 July 2010	0	3,817	374	6,959	0	11,150
Net book value						
At 31 July 2010	62,191	4,016	84	1,642	0	67,933
At 31 July 2009	70,268	2,993	85	2,808	1,938	78,092

Revaluation of land and buildings was carried out by CB Richard Ellis Limited on 31 July 2010. The valuer was qualified for the purpose of the valuation in accordance with RICS Appraisal and Valuation Standards. The valuation was carried out on the basis of depreciation replacement cost for specialised properties and existing use value for non-specialised properties.

UNIVERSITY OF CUMBRIA

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10 Tangible assets (continued)

In the Consolidated Accounts the net book value of land and buildings based on historic cost would be £60,395,000. In the University's Accounts the net book value of land and buildings based on historic cost would be £60,204,000.

All assets shown in the balance sheet are included at historical cost value, with exception of Freehold Land and Buildings, which are shown at revalued amounts.

The value of the buildings and fixed plant and machinery that are located at Newton Rigg has been impaired to reflect the University's intention to cease Further Education provision at that location from 2011/12.

Under the terms of establishment of the University, the Church of England retains an interest in the former freehold and leasehold properties of St Martin's College.

11 Investments

	Notes	2009/10		2008/09	
		Consolidated £'000	University £'000	Consolidated £'000	University £'000
Subsidiary companies	31	0	230	0	230
Other fixed asset investments:					
Genus Limited		14	0	10	0
		<u>14</u>	<u>230</u>	<u>10</u>	<u>230</u>

The shares in Genus Limited have been valued at market value.

12 Endowment assets (consolidated and university)

	2009/10 £'000	2008/09 £'000
Balance at 1 August	137	121
New endowments invested	15	50
Decrease in cash balances held for endowment funds	(16)	(34)
Balance at 31 July	<u>136</u>	<u>137</u>

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	2009/10		2008/09	
	Consolidated £'000	University £'000	Consolidated £'000	University £'000
13 Stock				
Stocks of goods for resale	<u>296</u>	<u>51</u>	<u>254</u>	<u>63</u>
14 Debtors				
Amounts falling due within one year:				
Debtors	1,520	1,520	1,863	1,864
Prepayments and accrued income	1,989	1,934	1,678	1,730
Amounts due from subsidiary companies	<u>0</u>	<u>674</u>	<u>0</u>	<u>400</u>
	3,509	4,128	3,541	3,994
Amounts falling due after more than one year:				
Amounts due from subsidiary companies	0	29	0	668
	<u>0</u>	<u>29</u>	<u>0</u>	<u>668</u>
	3,509	4,157	3,541	4,662
15 Creditors: amounts falling due within one year				
Secured loans	8,558	8,558	8,928	8,928
Obligations under finance leases	5	5	13	13
Trade creditors	2,984	2,984	3,995	3,966
Amounts due to subsidiary companies	<u>0</u>	<u>35</u>	<u>0</u>	<u>0</u>
Social security and other taxation payable	1,188	1,188	1,310	1,310
Accruals and Deferred Income	<u>21,297</u>	<u>21,272</u>	<u>14,381</u>	<u>14,431</u>
	34,032	34,042	28,627	28,648
16 Creditors: amounts falling due after more than one year				
Amounts due to funding bodies in respect of clawback after more than one year	0	0	2,657	2,657
Analysis of secured and unsecured loans and finance leases:				
Due within one year or on demand	8,563	8,563	8,941	8,941
Due between one and two years	1,082	1,082	160	160
Due between two and five years	3,288	3,288	282	282
Due in five years or more	<u>2,322</u>	<u>2,322</u>	<u>1,317</u>	<u>1,317</u>
	15,255	15,255	10,700	10,700
Due within one year or on demand	(8,563)	(8,563)	(8,941)	(8,941)
Due after more than one year	<u>6,692</u>	<u>6,692</u>	<u>4,416</u>	<u>4,416</u>

UNIVERSITY OF CUMBRIA

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16 Creditors: amounts falling due after more than one year (continued)

Loans include the following:

Lender	Amount Outstanding 31 July 2010 £'000	Term	Interest rate	Security
National Westminster Bank plc	204	2021	Base rate +1.5%, Minimum 5.5%	Fixed and floating charges
National Westminster Bank plc	793	2025	7.70%	Fixed and floating charges
National Westminster Bank plc	1,094	2022	6.72%	Fixed and floating charges
National Westminster Bank plc	1,247	2024	7.44%	Fixed and floating charges
National Westminster Bank plc	5,102	2035	7.50%	Fixed and floating charges
Cumbria County Council	501	Indefinite (reducing balance)	4.8% plus 1.5% debt management fee	Unsecured Fixed charge over halls of residence at Brampton Road
Barclays Bank plc	1,010	2020	10.74%	campus
HEFCE - SDF loan for major restructuring costs	5,000	2016	0.00%	Unsecured
HEFCE	71	2011	0.00%	Unsecured
HEFCE / Salix	228	Indefinite	0.00%	Unsecured
	15,250			

The University's borrowings from National Westminster Bank, totalling £8,440k, have been disclosed as amounts falling due within one year, as related financial covenants were breached during 2008/09 and are therefore technically repayable on demand. These covenants have not been breached during 2009/10.

17 Provisions for liabilities

	Other provisions £'000	Enhanced Pension Costs £'000	Total £'000
Consolidated			
At 1 August 2009	0	855	855
Utilised in year	0	(61)	(61)
Transferred from income and expenditure account	0	32	32
At 31 July 2010	0	826	826
University			
At 1 August 2009	48	855	903
Utilised in year	(48)	(61)	(109)
Transferred from income and expenditure account	0	32	32
At 31 July 2010	0	826	826

The assumptions for calculating the provision for enhanced pension costs under Financial Reporting Standard 17, Retirement Benefits,

	31 July 2010	University %
	Consolidated	
	%	
Interest rate	5.4%	5.4%
Net interest rate	3.0%	3.0%

The enhanced pension provision relates to the cost of staff who have already left the University's employment from which the University cannot reasonably withdraw at the balance sheet date.

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010

18 Deferred capital grants

	Funding Council £'000	Other Grants £'000	Total £'000
Consolidated and University			
At 1 August 2009			
Buildings	18,387	8,047	26,434
Equipment	3,348	592	3,940
Total	21,735	8,639	30,374
Prior period adjustment to release grant to income and expenditure account (see Note 32)			
Buildings	1,000	0	1,000
Equipment	824	0	824
Total	1,824	0	1,824
Reclassification of opening balances			
Buildings	(2,300)	(1,000)	(3,300)
Equipment	2,300	1,000	3,300
Total	0	0	0
Transferred from deferred income			
Buildings	2,764	0	2,764
Total	2,764	0	2,764
Cash receivable			
Buildings	352	0	352
Equipment	3,410	0	3,410
Total	3,762	0	3,762
Released to income and expenditure account			
Buildings (notes 1 and 4)	434	151	585
Equipment (notes 1 and 4)	2,652	225	2,877
Total	3,086	376	3,462
Transferred to deferred income			
Buildings	0	5,640	5,640
Total	0	5,640	5,640
At 31 July 2010			
Buildings	17,769	1,256	19,025
Equipment	5,582	1,367	6,949
Total	23,351	2,623	25,974

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19 Endowments (consolidated and university)

	Unrestricted Permanent £'000	Restricted Permanent £'000	Total Permanent £'000	Restricted Expendable £'000	2010 Total £'000	2009 Total £'000
Balances at 1 August 2009						
Accumulated income	0	128	128	9	137	121
Changes during the year						
New endowments	0	15	15	0	15	50
Investment income	0	0	0	0	0	0
Expenditure	0	(16)	(16)	0	(16)	(34)
Increase in market value of investments	0	0	0	0	0	0
Balances at 31 July 2010	0	127	127	9	136	137

20 Reserves

	Notes	Year ended 31 July 2010	
		Consolidated £'000	University £'000
Income and expenditure reserve			
At 1 August 2009		5,392	6,149
Prior period adjustment (see Note 31)		<u>1,824</u>	<u>1,824</u>
Restated as at 1 August 2009		7,216	7,973
Deficit retained for the year		(8,932)	(9,448)
Transfer from revaluation reserve		259	259
Reduction in pension scheme liabilities		4,366	4,366
Actuarial loss on pension scheme		(2,620)	(2,620)
Pension scheme charge to general reserves		527	527
At 31 July 2010		<u>816</u>	<u>1,057</u>
Pension reserve			
At 1 August 2009		(21,948)	(21,948)
Actuarial gain / (loss)		(2,620)	(2,620)
Charge to income and expenditure account		(1,353)	(1,353)
Surplus / (Deficit) retained within reserves		3,446	3,446
At 31 July 2010		<u>(22,475)</u>	<u>(22,475)</u>
Revaluation reserve			
At 1 August 2009		12,670	12,648
Impairment of Newton Rigg assets		(6,049)	(6,049)
Gains on revaluation		7,701	7,701
Gain on valuation of shares held by Newton Rigg Enterprises Limited		4	0
Transfer from revaluation reserve to general reserve in respect of:			
Depreciation charged on revalued assets		(259)	(259)
		<u>14,067</u>	<u>14,041</u>

The University received capital grant funding from HEFCE between 2007/08 and 2009/10 to fund investment in specific aspects of the new institution's estate. During 2009/10 the terms of the grant were clarified with HEFCE and it was identified that some assets brought into use in 2008/09 had not been matched to this grant funding. As result, depreciation was recorded in the Income and Expenditure account without being matched to an equal release of income from the capital grant. As a result of the clarification in terms, a prior period adjustment of £1.8m was required. This adjustment has had the effect of increasing income recorded in 2008/09 and therefore increasing the income and expenditure reserve balance for that year. It has also reduced the opening deferred capital grants balance by £1.8m as they are presented in these financial statements. The adjustment is referred to on the face of the Income and Expenditure statement and within the Statement of Recognised Gains and Losses.

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	Notes	2009/10 £'000	2008/09 £'000 (Restated)
21 Reconciliation of deficit before tax and profit on disposal of fixed assets to net cash flow from operating activities			
Surplus / (deficit) after depreciation of tangible fixed assets at valuation and before tax		1,842	(9,495)
Depreciation	10	4,878	4,177
Impairments	10	2,946	0
Fall in value of investments held by subsidiary	11	0	5
Deferred capital grants released to income	18	(3,462)	(4,381)
Deferred capital grants reclassified as deferred income	18	0	(7,299)
Pension costs less contributions payable	30	2,273	3,193
Investment income	5	(13)	(28)
Interest payable	7	612	854
Increase in stocks		(42)	(47)
(Increase) / decrease in debtors and prepayments		32	133
Increase / (decrease) in creditors and accruals		577	11,183
Increase / (decrease) in provisions		(29)	20
Restructuring costs (exceptional item in Income and Expenditure account)		(3,781)	(1,932)
Net cash inflow / (outflow) from operating activities		5,833	(3,617)
22 Returns on investments and servicing of finance			
Income from endowments		0	0
Other interest received		13	28
Interest paid		(612)	(854)
		(599)	(826)
23 Capital expenditure and financial investment			
New endowment funds received	19	15	50
Endowment funds expended	19	(16)	(34)
Payments made to acquire fixed assets	10	(3,280)	(6,099)
Deferred capital grants received	18	3,762	10,731
Net cash inflow / (outflow) for capital expenditure and financial investment		481	4,648
24 Financing			
New financing acquired - HEFCE SDF loan for restructuring		5,000	0
New financing acquired - Salix revolving green fund		48	180
Repayments of amounts borrowed		(485)	(511)
Capital element of finance lease rental payments		(8)	(12)
		4,555	(343)

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25 Analysis of changes in net debt

	Notes	At 1 August 2009 £'000	Cash Flows £'000	Non-cash Changes £'000	At 31 July 2010 £'000
Endowment assets	13	137	(1)	0	136
Cash at bank and in hand		317	10,271	0	10,588
		454	10,270	0	10,724
Debts due within one year		(8,928)	370	0	(8,558)
Debts due after one year		(1,759)	(4,933)	0	(6,692)
Finance lease		(13)	8	0	(5)
		(10,246)	5,715	0	(4,531)

UNIVERSITY OF CUMBRIA

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	2009/10		2008/09	
	Consolidated £'000	Institution £'000	Consolidated £'000	Institution £'000
26 Capital and other commitments				
Provision has not been made for the following capital commitments at 31 July 2010:				
Commitments contracted for	991	991	2,977	2,977
Authorised but not contracted for	135	135	2,900	2,900
	<u>1,126</u>	<u>1,126</u>	<u>5,877</u>	<u>5,877</u>

27 Amounts disbursed as agent (consolidated and institution)

	2009/10	2008/09
	£'000	£'000
HEFCE - Access to Learning Fund		
Excess of income over expenditure at 1 August	28	19
Funding council grants	248	330
Interest earned	4	5
Grants paid	(271)	(326)
Excess of income over expenditure at 31 July	<u>9</u>	<u>28</u>
TDA - Training Bursaries		
Excess of income over expenditure at 1 August	(134)	25
Funding council grants	4,982	4,662
Grants paid	(5,239)	(4,821)
Excess of income over expenditure at 31 July	<u>(391)</u>	<u>(134)</u>
LSC - Residential and Hardship Funds		
Excess of income over expenditure at 1 August	47	55
Funding council grants	241	248
Interest earned	1	1
Grants paid	(265)	(257)
Excess of income over expenditure at 31 July	<u>24</u>	<u>47</u>

Funding council grants are available solely to assist students: the University acts solely as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure account.

The North West Development Agency paid funds of £2.2m to the University during 2009/10 for the development of educational facilities at Furness College. The University acted solely as paying agent in this arrangement and it disbursed all funds directly to Furness College. Due to this, no related amounts have been recognised in the Income and Expenditure Account.

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

28 Disclosure of related party transactions

Due to the nature of the University's operations and the composition of the Board of Directors, being drawn from local public and private sector organisations, it is inevitable that transactions will take place with organisations in which a member of the Board may have an interest. All transactions involving organisations in which a member of the Board may have an interest are conducted at arm's length and in accordance with the University's financial regulations. No transactions in 2009/10 were identified which should be disclosed under Financial Reporting Standard 8 'Related Party Disclosures'. The Group has taken advantage of the exemption set out in FRS 8 and has not disclosed intra-group transactions.

The new Chairman of the Board of Directors, who took up office on 1 October 2010, is also the Chairman of the Nuclear Decommissioning Authority from which the University has received funding as outlined in Note 29.

29 Energy Coast Campus Funding

The Nuclear Decommissioning Authority (NDA) provided £4.0m of funding during 2009/10 for a programme that is being delivered at the Energy Coast Campus. Including the funding provided in year, £10.0m has been received from the NDA in respect of this programme since 2007/08. The funding is recorded on the Balance Sheet within Accruals and Deferred Income. When University expenditure is incurred on projects approved by the Programme Board, a matching amount of income is released to the Income and Expenditure Account from these funds. When funds are to be passed to other parties for their delivery of projects, no amounts are recognised in the Income and Expenditure Account.

At 31 July 2010, £7.5m of the funding has been recorded within the Accruals and Deferred Income balance in Note 16. £6.8m of the cash received from the NDA remains unspent and this amount is recorded within the Cash at Bank and in Hand figure on the Balance Sheet. The difference between the Accruals and Deferred Income balance and the unspent cash balance relates to timing differences between cash payments that have been made and the recognition of the relate

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

30 Pension schemes

The two principal pension schemes for the University's staff are the Teachers' Pensions Scheme England and Wales (TPS) and the Local Government Pension Scheme (LGPS).

The total pension cost for the University and its subsidiaries was:

	2009/10	2008/09
	£'000	£'000
TPS contributions paid	2,955	4,627
LGPS charge to the income and expenditure account	3,005	4,436
Total pension cost (note 6)	5,960	9,063

Outstanding pension contributions at 31 July

The assumptions and other data relevant to the determination of the contribution levels of the schemes are as follows:

	TPS	Lancashire
	2009/10	LGPS
		2008/09
Investment returns per annum	6.50%	15.20%
Salary scale increase per annum	5.00%	5.05%
Pension increase per annum	3.00%	2.80%
Market value of assets at date of last valuation (£ million)	116,000	3,689
MFR proportion of members accrued benefits covered by the actuarial value of the assets	N/A	84%

Teachers' pension scheme

TPS is valued every year by the Government Actuary. Contributions are paid by the University at the rate specified. The Scheme is unfunded and contributions are made to the Exchequer. The payments from the Scheme are made from funds voted by Parliament. The contribution rate payable by the employer is 14.1% of pensionable salaries.

Under the definitions set out in Financial Reporting Standard 17 "Retirement benefits" (FRS17), the TPS is a multi-employer defined benefit scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has taken advantage of the exemption in FRS17 and has accounted for the contributions as though it were a defined contribution scheme.

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

30 Pension schemes (continued)

Local Government Pension Scheme

LGPS is valued every three years by professionally qualified independent actuaries, using the projected unit method, the rates of contribution payable being determined by the trustees on the advice of the actuaries. In the intervening years, the LGPS actuary reviews the progress of the LGPS scheme.

For LGPS, the actuary has indicated that the resources of the scheme are likely, in the normal course of events, to meet the liabilities as they fall due, at the level specified by LGPS Regulations. The contribution payable to Lancashire Pension Services by the employer is 12.5% from 1st April 2010.

Under the definitions set out in FRS17, the LGPS is a multi-employer defined benefit pension scheme. In the case of the LGPS, the actuary of the scheme has identified the University's share of its assets and liabilities as at 31 July 2010.

The pension scheme assets are held in a separate trustee-administered fund to meet long-term pension liabilities to past and present employees. The trustees of the fund are required to act in the best interests of the fund's beneficiaries. The appointment of trustees to the fund is determined by the scheme's trust documentation. The trustees are responsible for setting the investment strategy of the scheme after consultation with professional advisers.

The material assumptions used by the actuary for FRS17 at 31 July 2010 were:

	2009/10	2008/09
	(%)	(%)
Price increases (2009/10: CPI, 2008/09: RPI)	2.8%	3.7%
Salary increases	5.1%	5.5%
Pension increases	2.8%	3.7%
Discount rate	5.5%	6.3%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates. The assumed life expectations on retirement at age 65 are:

	2009/10	2008/09
	(Years)	(Years)
<i>Retiring today</i>		
Males	21.20	21.20
Females	24.10	24.00
<i>Retiring in twenty years</i>		
Males	22.20	22.20
Females	25.00	25.00

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NOTES TO THE FINANCIAL STATEMENTS
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30 Pension schemes (continued)

Local Government Pension Scheme (continued)

The assets in the LGPS scheme and the expected rates of return were:

	2009/10		2008/09		2007/08	
	Long-term return	Fund value £'000	Long-term return	Fund value £'000	Long-term return	Fund value £'000
Equities	7.50%	22,623	7.50%	19,109	7.50%	19,862
Bonds - Government	4.20%	3,016	4.50%	2,124	4.80%	2,867
Bonds - Other	5.10%	5,656	5.80%	4,247	5.90%	4,749
Property	6.50%	3,016	6.50%	1,821	6.50%	2,048
Cash	0.50%	1,131	0.50%	1,213	5.00%	1,321
Other	7.50%	2,262	7.50%	1,821	7.50%	2,369
		<u>37,704</u>		<u>30,335</u>		<u>33,216</u>

The following amounts at 31 July 2010 were measured in accordance with the requirements of FRS17:

	2009/10 £'000	2008/09 £'000
Analysis of the amount shown in the balance sheet		
The University's estimated asset share	37,704	30,335
Present value of the University's scheme liabilities	(60,179)	(52,283)
Deficit in the scheme - net pension liability	<u>(22,475)</u>	<u>(21,948)</u>
Analysis of the amount charged to staff costs within operating surplus		
Current service cost	(2,957)	(3,758)
Past service cost	4,366	0
Settlements and curtailments	(334)	(678)
Total operating charge	<u>1,075</u>	<u>(4,436)</u>
Analysis of the amount that is credited to other finance income / (charged to interest payable)		
Expected return on pension scheme assets	2,040	2,275
Interest on pension scheme liabilities	(3,393)	(3,235)
Net return / (charge)	<u>(1,353)</u>	<u>(960)</u>
Analysis of the amount that would be recognised in the statement of total recognised gains and losses (STRGL)		
Actual return less expected return on pension scheme assets	(5,385)	4,866
Changes in assumptions underlying the present value of scheme liabilities	2,765	(3,974)
Actuarial gain / (loss) recognised in STRGL	<u>(2,620)</u>	<u>892</u>
Movement in deficit in the year		
Deficit in scheme at beginning of year	(21,948)	(19,647)
Movement in the year:		
Current service costs	(2,957)	(3,758)
Employers Contributions	2,371	2,203
Past service costs	4,366	0
Net return on assets	(1,353)	(960)
Impact of settlements and curtailments	(334)	(678)
Actuarial gain / (loss)	(2,620)	892
Deficit in scheme at end of year	<u>(22,475)</u>	<u>(21,948)</u>

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 JULY 2010**
30 Pension schemes (continued)
Local Government Pension Scheme (continued)

In its June 2010 budget, the government announced that it intended for future increases in public sector pension schemes to be linked to changes in the Consumer Prices Index (CPI) rather than, as previously, the Retail Price Index (RPI). The University has considered the LGPS scheme rules and associated members' literature and has concluded that as a result, a revised actuarial assumption about the level of inflation indexation should be made, with the resulting gain of £4.4m recognised through the Statement of Total Recognised Gains and Losses ('STRGL'). At the date of these financial statements, the Urgent Issues Task Force (UITF) is in the process of consulting widely on the accounting treatment for this change and is expected to issue an Abstract towards the end of 2010. Should the Abstract call for a different accounting treatment it may be necessary to reflect any change as a prior period adjustment in the financial statements for the following year.

	2009/10 £'000	2008/09 £'000
Analysis of the movement in the present value of the scheme liabilities		
At beginning of the year	52,283	52,863
Current service cost	2,957	3,758
Interest cost	3,393	3,235
Contributions by scheme participants	1,090	1,201
Actuarial gains and losses	5,385	(6,140)
Benefits/transfers paid	(897)	(1,015)
Past service cost	(4,366)	0
Business combinations	0	0
Curtailments	334	(1,619)
Settlements	0	0
At end of the year	<u>60,179</u>	<u>52,283</u>
Analysis of the movement in the market value of the scheme assets		
At beginning of the year	30,335	33,216
Expected rate of return on scheme assets	2,040	2,275
Actuarial gains and losses	2,765	(5,248)
Contribution by the employer	2,371	2,203
Contributions by scheme participants	1,090	1,201
Benefits paid	(897)	(1,015)
Business combinations	0	0
Settlements	0	(2,297)
At end of the year	<u>37,704</u>	<u>30,335</u>

History of experience gains and losses

Cumulative	2009/10 £'000	2008/09 (Cumbria) £'000	2008/09 (Lancashire) £'000	2007/08 (Cumbria) £'000	2007/08 (Lancashire) £'000
Difference between the expected and actual return on scheme assets:					
Amount (£'000)	2,765	(617)	(4,631)	96	(3,606)
Percentage of scheme assets	7.3%	33.8%	-16.2%	2.0%	-12.6%
Experience gains / (losses) on scheme liabilities					
Amount (£'000)	0	0	0	330	-198
Percentage of present value of scheme liabilities	0%	0%	0%	5.2%	40.0%
Total amount recognised in statement of total recognised gains and losses:					
Amount (£'000)	2,620	# -40	-852	161	8,414
Percentage of present value of scheme liabilities	4.4%	0.9%	1.8%	2.5%	18.1%

The cumulative amount of actuarial gains and losses recognised in the statement of total recognised gains and losses is £2,620,000 (2009: -£852,000).

Defined benefit scheme assets do not include any of the University's own financial instruments, or any property occupied by the University.

The estimate for the contribution for the defined benefit scheme for the year to 31 July 2011 is £2,095,000

UNIVERSITY OF CUMBRIA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2010

31 Subsidiary undertakings

Active subsidiary companies (all of which are registered in England and Wales), all wholly-owned by the University, are as follows:

Company	Principal Activity
Newton Rigg Enterprises Ltd	Farming and the provision of education about farming
UOC Trading Ltd	The provision of commercial courses and graphic design work

In addition, the University owns 100% of the share capital of five further subsidiaries that are not currently trading:

Company	
UniSolutions Ltd	The provision of business advice and knowledge transfer to external organisations
UOC Conferences Ltd	The provision of conference and hospitality services
Moorbury Ltd	The supply of light, heat and power, the letting of accommodation and the provision of construction services
Sunnyglen Ltd	The purchase and provision of construction services
St. Martin's Services Ltd	The provision of library facilities