LONDON metropolitan university

Transforming lives
Meeting needs
Building careers

Annual Report & Accounts 2011–2012



Contents

London Metropolitan University
A Company limited by guarantee
with no share capital

Registered in the United Kingdom:
registration number 974438

Registered Office:
166-220 Holloway Road
London
N7 8DB
Tel: 020 7423 0000
www.londonmet.ac.uk

The University is an exempt charity
under the Charities Act 2011

London Metropolitan University: public benefit

London Metropolitan University is both a company limited by guarantee with no share capital and an exempt charity, regulated by HEFCE. The Charities Act 2011 places an obligation on charities to demonstrate explicitly how they provide public benefit.

The charity trustees of London Metropolitan University are its Board of Governors. They have had due regard to the Charity Commission's guidance on public benefit. This guidance requires, inter alia, that there must be clearly identifiable benefits related to the aims of the charity; that the benefit must be to the public, or to a section of the public; that where the benefit is to a section of the public, the opportunity to benefit must not be unreasonably restricted by geographical or other restrictions or by ability to pay fees; that people in poverty must not be excluded from the opportunity to benefit.

Our primary charitable purpose under the Charities Act, as set out in the company's Memorandum of Association, is to carry on and conduct a university for the advancement of education and as an institution for teaching and research, and for that purpose:

- To provide courses of educational or technical study both full-time and part-time for students at all levels and in all branches of education;
- To advance learning and knowledge in all their aspects and to provide industrial, commercial, professional and scientific education and training; and
- To study, conduct research in, promote and develop any art or science for the public benefit including the publication of results, papers, reports or other material in connection with or arising out of such research.

The mission of the University, set out in our Strategic Plan, is as follows:

London Metropolitan University transforms lives through education and research of quality, meets society's needs through our socially responsible agenda, and builds rewarding careers for our students, staff and partners.

Examples of University activities which have delivered public benefit during 2011-12 include:

- Teaching 15,830 Home and EU students on undergraduate programmes and 4,142 Home and EU students on postgraduate programmes. Our bursary and scholarship schemes are designed to encourage students from diverse backgrounds to study at the University and 9,674 bursaries were awarded to Home and EU students during the year. We encourage participation from a wide range of international students who would not otherwise be able to afford to study in the United Kingdom, and 103 academic scholarships were awarded to overseas students during the year;
- We have set tuition fees for undergraduate programmes from 2012-13 that are amongst the lowest in the UK, following our intention to be champions of affordable quality education, and to accord with the access priority of the University;
- The Faculty of Social Sciences and Humanities has a commitment to public benefit that is embedded in its teaching, research and consultancy activities. Its research on a range of current social policy issues, including education, criminal justice and policing, gender violence and child protection, languages, migration and work, help shape policy and professional practice in government, statutory agencies and community organisations, both nationally and internationally. Similarly public engagement and social improvement are key principles that underpin teaching and consultancy across the Faculty, in community development, journalism, public health and wellbeing, regeneration and housing, social policy and social work;
- London Metropolitan Business School continues to support research and knowledge exchange via publicly available events and lectures. For example, the Eleventh International Colloquium on Nonprofit, Social, Arts and Heritage Marketing, which was attended by 61 delegates representing 12 countries, and the first 'Energy Day: Sustainable Supply' which was a single day within the EU Sustainable Energy Europe Week (EUSEEW) devoted to promoting the awareness of the significant role of sustainable energy supply. The Economics Division has research centres working in the areas of sustainability, energy, climate change and globalisation, and in the field of economics and ethics that considers the ethical, psychological and sociological dimensions of individual economic behaviour and how these may influence markets and/or organisations. The centres seek to develop distinctive research thinking theory to the practical challenges faced by individuals, business and government in a fast changing global environment. These centres provide information free of charge to the public, including research and events which disseminate knowledge and understanding of these issues to the wider community;
- The Aldgate Project has seen hundreds of art, architecture and design students from the University work to regenerate Aldgate and surrounding quarters of east London in time for the Olympics. Students from the Faculty of Architecture and Spatial Design and the Sir John Cass Faculty of Art, Media and Design worked with local stakeholders as part of the scheme, which involved 20 separate creative projects. The project was awarded a Bronze Medal for the 'Award for Creative Cultural Project' at the national Podium Awards, a one-off celebration recognising the vital role colleges and universities across the UK have played in delivering the London Games; and
- Ongoing involvement through our Enterprise team and volunteers in a range of local business and community organisations.

Further details are given in our Operating and Financial Review.

No payments were made to the charity trustees during the year except in reimbursement of expenses incurred on the University's business. These expenses amounted to £2k (2011-12: £9k).

Financial highlights

The University delivered a strong operating surplus of £5.4m for the year, £2.5m higher than budgeted, as we implemented our programme of structural reviews, designed to improve the University's financial sustainability through staff restructuring and greater efficiency in the use of our buildings.

The sale of a freehold academic property, together with one-off restructuring costs and FRS17 pension adjustments, increased the surplus to £14.8m for the year.

We made extremely good progress towards our key financial performance indicators, exceeding our target on all indicators.

Measure	2011-12 target	2011-12 actual	2010-11 actual
Operating surplus as a percentage of income	2%	3.5%	2.4%
Net assets excluding pension liability and endowments	£114m	£125m	£112m
Liquidity (total expenditure excluding depreciation)	80 days	118 days	95 days
External borrowing as a percentage of income	4.2%	4.1%	4.7%
Cost of staff as a percentage of income	56%	55%	60%

Balance Sheet

Our net assets have decreased by 2.8% since 31 July 2011, from £54.2m to £52.7m.

Net assets before pension liabilities have increased by 12.4%, from £111.9m to £125.8m.

Our London Pension Fund Authority Fund (LPFA) liability has increased from £57.8m to £73.2m, primarily as a result of the decrease in Treasury Bond rates, used by the actuaries to calculate the liabilities of the Fund.

Report of the Board of Governors (as Directors) to the members of London Metropolitan University

The Board of Governors has pleasure in presenting the University's annual report and audited financial statements for the year ended 31 July 2012.

The financial statements have been prepared to comply with the Companies Act 2006 and the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education.

The Board of Governors has examined financial forecasts based upon these audited financial statements and estimates of income, expenditure and cash flow for the period to 31 July 2016. For the purpose of this going concern review, the Board has focused on the period to 31 July 2014.

The Board approved a budget for 2012-13 in July 2012 which showed a budgeted operating surplus for 2012-13 of 6.7% of income (2011-12: 3.5%), with a year-end cash forecast of £23m after funding £20m of capital investment. This budget was adversely affected by the revocation by the UK Border Agency in August 2012 of our Highly Trusted Sponsor status, which meant that we were unable to enrol new students under Tier 4 visas, together with a difficult market for UK and other European Union students as higher variable fees were introduced across the sector. This caused a reduction in our forecast income of £37m in 2012-13 compared to the approved budget for the year.

A revised budget for 2012-13 was approved on 5 November 2012 which, after mitigation to reduce the immediate impact of the reduction in income by containment of costs; deferral of inessential capital expenditure; and by proposed rescheduling of repayments to the Higher Education Funding Council for England (HEFCE) shows an operating deficit for the year of £5.5m and a year-end cash forecast of £15.1m.

An Action Plan was agreed by the Board on 29 November 2012, which covers nine key action areas to achieve our vision of a renewed London Metropolitan University to re-build our academic and financial sustainability.

Although the University has been adversely affected by the economic downturn and resultant general pressure on public sector funding, some of which has already been reflected in Higher Education Funding Council for England (HEFCE) funding and other public announcements, and which affect all institutions in the sector, the Board is satisfied that the reviews described in the University's Strategic Plan, together with the Action Plan, will address the need for further net savings to ensure the financial sustainability of the University.

Based upon its review of the financial forecasts and Action Plan, the Board is satisfied that these financial statements are properly prepared on a going concern basis. The Board considers that the use of the going concern basis is appropriate because, at the date of approval of the financial statements, it is not aware of any material uncertainties related to events or conditions that might cast significant doubt as at the date of approval of the financial statements about the ability of the University to continue as a going concern.

The principal creditor of the University is HEFCE, which was owed a total of £3.7m in respect of interest-free loans and £20.0m in respect of repayments of grant as at 31 July 2012. HEFCE has indicated that it will give positive consideration to rescheduling payments over the next few years, to provide additional operating headroom.

Operating and financial review

2011-12 was the second year of implementation of our Strategic Plan 2010-13 'Transforming Lives, Meeting Needs, Building Careers'. This Strategic Plan presents a three-year transformational plan for the University, based in the realities of increasingly constrained public funds and the need for substantial repayments to the HEFCE in each of the three years of the plan.

The plan committed to a systematic cycle of major reviews of our operations. Two major reviews reported in 2011-12: Postgraduate Education, Research, Knowledge Transfer and Enterprise Activity; and International Activity. We continued to implement the recommendations from 2010-11 reviews: Business Processes of all Support Services; Undergraduate Education; Governance Arrangements; the Effectiveness of Pay and Reward Structures; and Estates Master-planning.

The programme of reviews meant that we were well-placed to address the challenges of the changes in funding for students and for Higher Education Institutions (HEIs) announced in 2010-11 and allowed us to set tuition fee levels for 2012-13 that are amongst the lowest in the sector, so confirming our commitment to providing affordable, quality, education to our students.

Report of the Board of Governors

Strategic priority 1:
Providing a quality learning experience for our students

In the academic year 2011-12 we had two main priorities concerning the provision and development of a quality learning experience for our students:

- Implementing the recommendations of the Review of Undergraduate Education conducted in 2010-2011 (a root and branch investigation into how, when, where and what we offer in relation to the new funding arrangements for 2012-13); and
- Conducting a fundamental Review of Postgraduate Education, Research, Knowledge Transfer and Enterprise Activity concerning the purpose and rationale for postgraduate education and research and the connection with the undergraduate curriculum, professional bodies and, more importantly, their function in the University.

The implementation of recommendations of the Review of Undergraduate Education included the rationalisation of the undergraduate course portfolio to 167 programmes and their development and validation to deliver a new curriculum based on year-long modules rather than semester modules. The number of teaching weeks was increased from 24 to 30 and the average contact time for full-time students was increased from 288 to 360 hours a year. The new curriculum will be implemented across all undergraduate levels of study and this has required significant planning and co-ordination to ensure a smooth transition.

The upgrade of the University's Virtual Learning Environment, initiated in January 2011, was completed in time for the start of the 2012-13 academic year. Aimed at facilitating the on-line submission of assessment and feedback, a successful pilot of on-line submission was conducted in June 2012.

In May 2012, the accrediting body for the University's degrees in the USA, the Middle States Commission on Higher Education's quinquennial review of the University's provision resulted in the best possible outcome, in adjudging that we complied with all of their fourteen standards or "Characteristics of Excellence". The MSCHE evaluation team made no formal requirements for change, one recommendation and six suggestions. They commended us on six different aspects of our activity.

In the National Student Survey, London Metropolitan University again achieved its highest ever satisfaction rating with a further 3% increase in overall student satisfaction from 73% in 2011 – which was itself a 6% increase from 67% in 2010 - to 76% in 2012. Across all subjects the satisfaction scores have improved by an average of 4.6%. One course, BA International Relations and Politics, was given maximum marks from students. As in previous years we recognise that while this is an encouraging indicator of the progress to date, we still have much to do both as an institution and in addressing variations across subject areas.

The Destination of Leavers from Higher Education (DLHE) survey of those graduating in 2011 revealed that the number of our undergraduate students entering work or continuing to further study, rose again this year by 5% to 88% on top of an 8.4% rise in 2009-10. Indeed, for the first time ever, the University exceeded its HEFCE (location-adjusted) benchmark (+3.7%) for student employability in 2010-11. London Metropolitan University also has the highest average graduate starting salaries (£23,165) of any modern university in the UK.

We again ran the academic promotion scheme to recognise staff excellence in teaching, research and enterprise and awarded five Professorships, four Associate Professorships and six Readerships. We awarded a University Teaching Fellowship to a further three colleagues, using criteria similar to those of the national scheme.

Report of the Board of Governors

Strategic priority 2:
Education: enhancing participation and ensuring fair access

Student numbers

Student numbers, taken, where relevant, from the returns submitted to HESA in November of each academic year are shown in the table below.

	2011-12	2010-11
Full Time (Home/EU)	14,834	12,718
Full Time (Overseas)	2,662	3,155
Part Time	5,988	6,963
Total	**23,484**	**22,836**

2011 saw a very large intake of undergraduate students across the sector, as applicants were aware that fees would be considerably higher in 2012. The University enrolled approximately 1,500 students more than its target. Postgraduate and overseas student numbers continued to decrease in increasingly competitive markets. The decrease in part-time student numbers also continues the trend in previous years. The University completed reviews of its Undergraduate and Postgraduate course portfolios in 2011-12 to simplify and concentrate offerings to address market demands for 2012-13 entry.

Awards

The following summarises activity conducted through the University Awards Board in its 2011-12 cycle. A small number of awards conferred on behalf of collaborative partners remain to be agreed which will bring the total volume to approximately 8,750 awards conferred during the cycle, a small increase on the numbers in 2010-11 but still a decline on other recent years.

A total of 8,576 awards were made through the Awards Board this year compared with a total of 8,384 at the corresponding point in October 2011. A further 200 awards are expected before the end of this reporting period.

In the major award categories the analysis of honours and masters degrees awarded is as follows:

Bachelors Degrees

	2011-12	%	2010-11	%	2009-10	%
1st	469	12.9	451	11.8	369	10.1
2:1	1,428	39.2	1,454	38.1	1,468	40.1
2:2	1,369	37.6	1,421	37.3	1,434	39.2
3rd	283	7.8	391	10.3	308	8.4
Non Honours	93	2.5	97	2.5	80	2.2
Total	**3,641**		**3,814**		**3,659**	

The proportion of 1st and 2:1 honours degrees has increased slightly to 52.1% while the proportion of first class degrees increased by 1.1% compared to 2010-11. Excluding variations in collaborative activity, which are not included above, the volume of honours degrees is down 4.8% on 2010-11.

Report of the Board of Governors

Masters Awards

	2011-12	%	2010-11	%	2009-10	%
Distinction	273	15.0	238	11.0	241	11.9
Merit	791	43.4	953	43.9	880	43.4
Pass	757	41.6	979	45.1	905	44.7
Total	**1,821**		**2,170**		**2,026**	

The volume of masters awards conferred between 1 November 2011 and 31 October 2012 decreased compared to 2010-11, while the percentage of distinctions has increased, merits have remained constant and pass awards have decreased. This change may reflect new rules for 'borderline' upgrade of classifications from pass to merit and from merit to distinction.

Progression

59.8% of full time students commencing undergraduate study in 2011-12 progressed from Level 4 (Year 1) to Level 5 (Year 2) of undergraduate degrees in 2011-12 compared with 62.7% in 2010-11. A further 9.5% were granted conditional progression, taking the total progressing to Level 5 to 69.3%(2010-11: 59.4%).

66.9% of students progressed from Year 2 to Year 3 in 2011-12 compared with 65.3% in 2010-11.

Partnerships

In 2012 the University entered a new partnership with the London School of Business and Finance (LSBF), a private institution with campuses in London, Birmingham and Manchester. This link, primarily with our Business School was expected to develop further, but has been significantly affected by the revocation of our Highly Trusted Sponsor status.

New international partnerships were developed in Russia (architecture), Ireland (computing), Spain (business and journalism) and Cyprus (business). In addition, the link established with Islington College, Nepal, was strengthened to include business course provision in addition to the computing courses introduced last year. Discussions are currently underway with regard to developments in Ghana, Spain, Singapore and Malaysia.

Our partnership with the British College of Osteopathy Medicine (BCOM) came to an end this year as BCOM moved to a new validating partner, the University of Plymouth. The University continues to work with other longstanding partners, particularly the Business College of Athens, with whom we have 900 students and, more locally, City & Islington and Hackney Colleges, with over 250 students.

We currently have 32 partners with validated degrees which make up the majority of our off-campus provision. Twelve collaborative partners are due for periodic review in the 2012-13 academic session.

A University review of all collaborative provision is due to take place in 2012-13.

Strategic Priority 3:
Research and enterprise: advancing new knowledge and its applications

Research

Researchers across the University engage with businesses, the public sector and other organisations to carry out innovative, relevant and evidence-based research. We received research funding in 2011-12 from a wide range of funding bodies, including Research Councils, Government departments, charities, commercial organisations and professional bodies.

Research undertaken addressed challenges in areas as diverse as: digital forming and design; music technology; educational media; knowledge management; learning interfaces; gesture recognition; electric mobility; international standards; banking and finance; leadership; marketing; modes of work including working at home; corporate responsibility; mega events and regional development; management of public space; cultural route networks and SMEs; microbiology; nutritional deficit in diabetic pregnancy; therapy for sickle cell disease; omega 3 fatty acids and health in Omani school children; improving food safety; African fermented foods; diet and arthritis; dietary strategies for managing diabetes; youth alcohol consumption; obesity; diet interventions; microvesiculation; religion and politics; human rights; racism; migration; domestic violence; child abduction; and family law.

Individual researchers were recognised for their work in 2011-12 with awards such as a Leverhulme Fellowship to work on the history of the Essex landscape in the 20th century and the Academy of Marketing's Lifetime Achievement Award for Outstanding and Extraordinary Contributions to the Field of Marketing. A University academic co-chaired the production of an international ANSI and DHS standard. University researchers won best academic paper awards in finance, banking, marketing, and networking. They are on the editorial boards of journals such as Gender, Work and Organisation; Democratisation; and the American Journal of Clinical and Experimental Immunology.

Report of the Board of Governors

The results of research are disseminated through conferences, publications, workshops, seminars, exhibitions, performances, expert panels, user groups, guest lectures and summer schools, and has influenced teaching in exciting new ways. For example, degrees in Music Technology have developed and benefited from research in music technology.

The Faculty Advanced Institute of Research (FAIR) was established in 2012 to foster interdisciplinarity and bring together researchers who are working to make social justice a priority. FAIR is made up of six research units: the Child and Woman Abuse Studies Unit (CWASU), the Human Rights and Social Justice Research Institute (HRSJ), the Institute for Policy Studies in Education (IPSE), the Institute for the Study of European Transformations (ISET), the Learning Technology Research Institute (LTRI) and the Working Lives Research Institute (WLRI). They are currently working on 27 different projects worth a total of £3.5m.

Enterprise and Community

The role of enterprise activities is to encourage and demonstrate impact – both social and economic – from the University's knowledge base. This encompasses the creation of impact through education via delivery of Continuing Professional Development; impact through research delivered as Knowledge Transfer Partnerships (KTPs) or other forms of collaborative applied and contract research; impact on the student experience and employability through the development of enterprise skills and the opportunity to practice and develop them through placements and business creation; and impact on the wider community through public engagement in research and teaching.

The University's strategic review of postgraduate education and research training included a review of knowledge transfer and enterprise activity. The overarching aim of the enterprise work stream was to recommend practical and cost effective ways through which the University can accomplish the Enterprise goals of reputational enhancement, profitable growth, and of increasing existing university contributions to our wider communities: local, national and international. Implementation of the recommendations from 2012-13 onwards is aimed at encouraging a broad base of enterprise activities throughout the University against the backdrop of an increasingly difficult external environment, underpinned by public sector funding cuts.

Despite facing challenging conditions and limited new opportunities, the University has engaged in a wide range of Enterprise activities during 2011-12, including:

- Strengthening the position of **Accelerator**, the University's digital media business incubator, as a key player in Tech City's innovation hub, providing both enterprise opportunities and work placements for the University's students. In addition to the 20 plus University students who are running their businesses from within the centre, Accelerator has trained over 50 University student businesses, many of which have attended a two day intensive Business Bootcamp launched by Boris Johnson and funded by the Royal Bank of Scotland. Other highlights have included the official opening of the Student Business Hatchery at the start of 2012 by HRH The Duke of York, roundtables for students and businesses attended by the CEO of the Tech City Investment Organisation – Eric Van Der Kleij, and business angel events run by Bill Morrow, founder of Angels Den, the largest 'angel network' in Europe and the Middle East.
- **Metropolitan Works** was embedded within the **Faculty of Art, Media and Design**, thus encouraging greater usage of the Unit's cutting-edge technology by University students in progressing academic courses with an emphasis on future employability. 2011-12 also saw the successful completion of the Digital Design and Manufacturing ERDF funded project, which had the principal aim to develop infrastructure for research centred around digital design and materialisation.
- The **Cities Institute** played an active role in a number of initiatives that drew upon the wide range of expertise within the Unit that has been developed over a number of years. These included evaluation of the pilot phase of the Islington Community Alcohol Partnership, funded by Tesco plc, advising the Mayor's Design Advisory Panel on the Draft Strategic Planning Guide 'All London Green Grid', and providing expert advice to the London Health Improvement Board working group on Obesity.
- The **Faculty of Architecture and Spatial Design's** Solar Decathlon Europe 2012 project, part funded by the Spanish government, was shortlisted for the RIBA Silver Medal, which in turn has led to the Faculty being selected for Solar Decathlon China, in 2013. Other notable successes included receipt of a commission from the Greater London Authority to deliver mobile 'Conversation Pieces' for the streets of London during the Olympic and Paralympic Games, and working with the London design office of a Korean consumer goods manufacturer to design a range of new healthcare products, which are now to be developed further for testing and evaluation.
- One **Knowledge Transfer Partnership** was completed during the year, having been rated 'very good' by the TSB, whilst two others are ongoing. Contact was made with over 100 SMEs and third sector organisations during the year, reflecting our continued commitment to the programme.
- The **Student Enterprise** Programme supported 14 University graduates during the year to launch new business ventures, two of which were successful in raising external finance from 'angel investors'. The unit also hosted two 'Women in Business' conferences during the year and won a High Impact Event award from Global Entrepreneurship Week magazine.
- The **World of Work (WOW) Agency** continues to establish partnerships with start-ups, SMEs and larger organisations, whilst support for the Social Enterprise sector in the development of necessary IT, digital and multimedia solutions at low cost has been most welcome. The Agency delivered over 40 projects during the year to a wide range of clients, including Comic Relief and Sport Relief. 2011-12 also saw the launch of the innovative WOWbiz initiative, which will give students the opportunity to gain academic credits for working on real non-commercial projects for a wider client base within the Social Enterprise and Charity sectors.
- Many of the activities detailed above are being part-financed from the University's allocation by HEFCE of Higher Education Innovation Fund 2011-15 funding of £1.5m per annum, due to run for the next three years.

Enterprise and Community activities in 2012-13 will continue to be an integral part of the University's offering to our student population, where even greater emphasis will be placed upon employability and the creation of future career opportunities.

Report of the Board of Governors

Strategic Priority 4:
Sustainability: driving resources harder

Human resources

The University's human resources policies and practices are designed to support institutional sustainability by being flexible, responsive and productive. Their aim is to promote an institutional culture which values professionalism, customer focus, teamwork, innovation and creativity, accountability, diversity and continuous improvement.

During 2011-12, the University rolled out the Higher Education Role Evaluation (HERA) job evaluation tool for all support areas. This replaced the Equate software. Following last year's review of the effectiveness of the University's pay and reward arrangements, the University continued to monitor pay against sector benchmarks and remains committed to the London Living Wage.

During 2011-12, the University had two formal programmes of staffing reductions, carried out in accordance with the provisions of the Trade Union and Labour Relations (Consolidation) Act. To minimise the impact on staff, in addition to the use of normal formal consultation provisions and the University's redeployment policy, bumped redundancies and a voluntary severance scheme were applied to mitigate the need for compulsory redundancies. Building on measures introduced last year to improve transparency and communication, consultation information was again made available to staff on the University's website and the Frequently Asked Questions page was updated and expanded.

A new single University-wide performance review and development scheme has been developed and is in transition, having been implemented for 2011-12 reviews, pending further discussions with the trades unions and managers on any final refinements arising from feedback.

Trades unions

Human Resources and the University's recognised trades unions have discussed a range of employment matters, most notably the shared services initiative, the future of the Women's Library and restructuring/redundancies.

Aside from these, much of the discussions with the trades unions have related to revised employment policies and procedures including a unified performance management framework, rationalising the sickness absence procedure and improving the disciplinary and grievance procedures. Increased union participation has taken place in progressing the evaluation of all professional service grade jobs using the HERA system, with union representatives assisting in the evaluation process.

Employee wellbeing

The Stress Management Steering Group met regularly to discuss issues and plan actions.

A dedicated Health and Wellbeing website, 'Well Met', provided the focus for information and guidance on health and wellbeing for staff at the University. This was updated in 2011-12 to include links to further sources of information including NHS Choices and MIND.

Support available to staff during 2011-12 included:

- an external Employee Assistance Programme;
- an in-house Occupational Health Service for staff; and
- a Health and Wellbeing Centre.

New for 2011-12 were two staff wellbeing events, held in June, at which staff had the opportunity to have their blood pressure and Body Mass Index (BMI) checked and to discuss any healthy life style related issues such as diet and exercise etc. Attendees were also offered a free consultation by staff from the Sports Injury Clinic and staff from Sports and Leisure Services were available to answer queries about gym membership, sessions and exercise classes in the University's gyms. A representative from the Employee Assistance Programme was there to answer staff queries about this service. Positive feedback was received from those who attended the sessions along with suggestions for future events.

Additionally, a number of staff underwent training in mediation techniques to build our capacity to provide an alternative to resolving individual grievances.

Equality and diversity

Our policies and practices are aimed at responding proactively to changes in employment legislation and promoting equality of opportunity in all areas of employment within the University.

Work is ongoing with the trades unions to develop an overarching Equality and Diversity policy that will bring together the separate policies covering the various protected equality characteristics. This harmonised policy will bring University policy more into line with the principles of the Single Equality Act and will mirror the structure of the University's Single Equality Scheme introduced in 2010-11.

Report of the Board of Governors

Staff development

A new programme was developed in consultation with Deans to help establish an organisation which is more flexible and based on networks, rather than one which is hierarchical and based on functions. The programme was jointly delivered by the University and the Leadership Foundation. The aim was to deliver an integrated programme for both faculty and support managers and leaders to promote better understanding and integration and contribute towards an improved culture of trust and openness. A total of 90 senior and middle managers from across all faculties and departments attended the launch of the new management and leadership development programme in 2011-12. The next stages of the programme will focus on helping staff to develop key management and leadership skills.

Staff numbers

As at 31 July 2012, the University employed a full-time equivalent of 1,733 staff, 275 (13.7%) fewer than at the same point in 2011. Since 31 July 2008, we have reduced the workforce by over 700 posts, a reduction of 31%.

	2012	2011	%change
Senior staff	66	82	(19.5)
Academic staff	685	756	(9.4)
Administrative staff	658	767	(14.2)
Manual and technical staff	70	72	(2.3)
Casual staff	53	116	(54.3)
Hourly paid lecturers	201	215	(6.5)
Total	**1,733**	**2,008**	**(13.7)**

Overall staff turnover during 2011-12 was 11.7%, up from 9.0% in 2010-11. The highest turnover was in senior staff grades, mainly as a result of the faculty management team restructuring that took place during 2011-12.

	2012	2011
Senior staff	24.2%	12.8%
Academic staff	11.1%	8.3%
Administrative staff	11.9%	9.4%
Manual and technical staff	5.7%	8.3%
Total	**11.7%**	**9.0%**

Estates

2011-12 was a key year in the implementation of the Estates Master Plan. Major projects took place over the summer of 2012, to enable the consolidation of faculties; the closure of four buildings (three leased, one owned); and the reduction of the estate by 12%.

- Salisbury House (part of Moorgate) was closed and underused library space converted to provide replacement teaching and IT rooms and study space;
- The Faculty of Social Sciences and Humanities was consolidated in the Tower complex, with staff and students moving from Ladbroke House and Calcutta House to refurbished teaching rooms in the former Polymers Block, enabling Ladbroke House to be closed;
- A major project at Central House is developing new facilities for Architecture and Fine Art students, enabling the closure of Eden Grove and providing the first steps to the closure of Spring House, with further works and moves planned in Summer 2013; and
- A new 'Met Lounge' in the basement of Calcutta House has been developed, providing informal study and touchdown space with an improved cafe area. The Met Lounge can also be used for occasional events, and with the Students Union offices moving to Calcutta House, 2 Goulston Street will be closed.

The University has also invested in its Estate infrastructure, with particular emphasis on energy efficiency and maintaining the value of freehold properties.

Report of the Board of Governors

Finance

Our financial strategy aims to produce an operating surplus in order to generate sufficient cash to support our academic strategy and for reinvestment in our infrastructure.

Our Strategic Plan adopts six measures of financial health:

Measure	2011-12 actual	2011-12 target
Operating surplus as a percentage of income	3.5%	2.0%
Net assets excluding pension liability and endowments	£125m	£114m
Liquidity (total expenditure excluding depreciation)	118 days	80 days
External borrowing as a percentage of income	4.1%	4.2%
Net operating cash flow as a percentage of income	7.9%	4.0%
Cost of staff as a percentage of income	55%	56%

Income and expenditure

A comparison of our 2011-12 financial performance with budget is as follows:

	Actual £'000	Budget £'000
Operating surplus	**5,426**	**2,941**
Add/(subtract)		
FRS17 adjustments	(1,056)	(2,117)
Restructuring costs	(3,121)	(2,689)
Onerous obligations under operating leases	(2,186)	-
Profit on sale of assets	15,752	15,390
Historical cost depreciation adjustment	24	24
Historical cost surplus	**14,839**	**13,549**

The financial statements show an operating surplus for the year of £5.4m, £2.5m better than budget. Total income increased by 3.2% (£4.8m) due mainly to higher tuition fee income of £6.5m offset by lower grants and other income of £1.7m. Expenditure increased by 1.6% (£2.4m) primarily due to the Student Number Control Penalty of £7.4m for the over enrolment of students above our capped numbers. This has been offset by lower other operating expenditure of £5.0m arising in the main from lower staffing costs.

The following tables compare 2011-12 and 2010-11 performance:

Operating income	2011-12 £'000	2010-11 £'000	Movement %
Funding body grants	58,454	68,465	(14.6%)
Tuition fees	84,870	76,607	10.8%
Research grants and contracts	2,570	2,876	(10.6%)
Other operating income	8,833	9,094	(2.9%)
Endowment and investment income	939	711	32.1%
Total operating income	**155,666**	**157,753**	**(1.3%)**

Total operating income decreased by 1.3% (£2.1m) compared to 2010-11:

- Reductions in funding body grants of 14.6% (£10.0m) resulted from a decrease in our HEFCE teaching grant of £5.2m, a change in accounting policy in 2010-11 which saw the release in full of the deferred inherited property grant of £3.8m, and a reduction in Higher Education Innovation Funding of £1.0m; and
- Tuition fee income increased by 10.8% (£8.3m). This was due to higher enrolment of home student and to the release of deferred income in respect of 2011-12 fees invoiced in 2010-11.

Report of the Board of Governors

Operating expenditure

	2011-12 £'000	2010-11 £'000	Movement %
Staff costs	86,321	95,000	(9.1%)
Staff restructuring costs	3,121	2,261	38.0%
Other operating expenses	54,117	47,756	13.3%
Depreciation	8,748	8,780	(0.4%)
Interest payable and other finance costs	2,110	2,064	2.2%
Total operating expenditure	**154,417**	**155,861**	**(0.9%)**

Total operating expenditure decreased by 0.9% (£1.4m) compared to 2010-11:

- Staff costs reduced by 9.1% (£8.7m) of which £2.9m is attributable to non-replacement of staff who left during 2011-12 and £2.2m to savings achieved following the business process review of the University's professional services departments. Section 188 redundancies of academic staff accounted for an additional £2.1m of savings and a further £1.5m was achieved following the suspension of the senior managers' performance related pay scheme in 2011-12;
- Restructuring costs increased as a result of redundancy payments to staff leaving the University; and
- The main element of the increase in other operating expenses is a HEFCE student number control penalty of £7.4m for over enrolment of students above the University's student recruitment numbers cap. This figure includes an accrual of £1.5m for the expected penalty that the University will be liable to pay in 2012-13. Excluding the student number control penalty, other operating expenses decreased by £1.0m compared to 2010-11 primarily due to tight cost control.

Balance sheet

Our consolidated net assets at 31 July 2012 were £52.7m, a decrease of £1.5m (2.7%) compared to 31 July 2011.

This figure is after taking into account a pension deficit of £73.2m (2011: £57.8m) on the pension scheme for non-academic staff, operated by the LPFA. The pension deficit, calculated by the Fund's actuaries in accordance with FRS17 'Retirement Benefits', increased by £15.4m. Changes in the market conditions over the year culminated in a slight increase in the University's share of the Fund's assets as the market value of investments as at 31 July 2012 increased by £0.7m, but this was more than offset by an increase of £16.1m in the estimated present value of the University's liabilities, largely as a result of changes to the discount rate used by the actuary.

Net assets excluding the pension fund deficit increased by £13.9m (12.4%) from £111.9m to £125.8m.

Fixed assets

On 18 August 2011, the University completed the sale of 100 Minories, a freehold property in Tower Hill. for £18.6m. This generated a surplus on disposal of £15.8m.

The net book value of three of the University's freehold academic properties on Holloway Road (Stapleton House, Eden Grove and Index House) totalling £8.6m and one freehold house at Stradbroke Grove totalling £60k, have been transferred from fixed assets to current assets pending the sale of these properties. The University completed the sale of the Stradbroke Grove house on 26 October 2012.

Expenditure during the year on fixed assets was £9.5m, bringing the total net book value of land, buildings and equipment to £130.5m (2011: £138.7m).

The most recent valuation of the group's freehold properties, carried out to ensure that there was no diminution in the carrying amount of the assets, was prepared by Drivers Jonas LLP as at 31 July 2009 on an existing use basis. The total value of the properties was £127.3m.

Current assets

Group debtors decreased by £3.5m to £8.4m. The decrease is primarily due to reductions in Student Loan Company debt, together with our commitment to maintaining strong credit control and debt management procedures.

Net cash balances, including investments in short-term deposits, increased from £40.0m at 31 July 2011 to £47.1m as cash inflows, assisted by the sale of our freehold academic property at Tower Hill (£18.6m), exceeded cash outflows, the most significant being the grant repayments to HEFCE of £10.0m and capital expenditure of £9.5m.

Report of the Board of Governors

Creditors and provisions for liabilities

Creditors falling due within one year decreased by £3.6m, from £44.4m to £40.8m reflecting loan repayments and tight cost control.

Creditors falling due after more than one year decreased by £9.2m to £18.6m (2011: £27.8m). Of the total net decrease, £10.0m reflects the transfer to short-term creditors of the University's repayments to HEFCE due in 2012-13 and £0.8m reflects new loans taken out (mainly a Strategic Development Fund loan), net of repayment of existing loans.

An accrual of £1.7m (2011: nil) and a provision of £0.2m (2011: £1.5m) have been made for the cost of redundancy payments arising from the reorganisation of professional services departments and academic faculties during 2011-12.

The provision for the cost of future lease obligations for properties no longer in operational use has been increased by a net £1.5m to £10.4m (2011: £8.9m). This includes an increase in the provision of £2.3m representing the estimated residual lease obligations for Salisbury House which the University expects to vacate in August 2013 offset by a release of £0.8m associated with the termination of the lease at Spring House (£0.6m) and 2011-12 operating costs for 133 Whitechapel High Street (£0.2m).

Treasury management

The University expects significant pressure on its cash flow, particularly during 2012-13 and 2013-14, as it addresses the impact of the sudden reduction in income from 2012 enrolment. This coincides with a period of major change and risk to sources of income. As a result, cash flow monitoring forms a significant part of the University's financial controls. Day-to-day cash and short-term investments are managed through rolling annual cash flow forecasts which are updated every month. Annual capital cash flow forecasts are updated every year with planning and annual budget cycles, so that any future borrowing requirements can be identified and negotiated well in advance of need.

The University's treasury management policy was reviewed during 2011-12. The policy manages risk by specifying a minimum credit rating requirement for each counterparty used, restricting the amount deposited with counterparties in any single country and restricting the percentage deposit with any single counterparty.

The University's foreign currency earnings represent a small proportion of its income and the overall exposure to exchange rate fluctuations is small.

Average daily cash balances in 2011-12 were £58.0m (2010-11: £46.8m). Interest earned on the balances was £810k (2010-11: £595k) giving an average return for the year of 1.4% (2010-11: 1.3%).

Endowment fund investments increased overall by 6.8% although the value of investments in the Henderson Managed Growth Fund which accounts for 64% of the total, decreased by 4.9% compared with a rise in the FTSE All Share Index of 5.8%.

The majority of endowment investments (£0.8m at July 2012) relate to the Women's Library and will transfer to the London School of Economics in 2013 along with the Women's Library collections.

The University is committed to the prompt payment of its suppliers' bills. The University aims to pay bills in accordance with agreed contractual conditions or, where no such conditions exist, within 45 days of receipt of goods and services or the presentation of a valid invoice.

Subsidiary trading company

London Metropolitan University Enterprises Limited has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. In 2011-12 the company made a deficit of £52k (2010-11: deficit £145k). This company is fully consolidated into the Group accounts, as are the University's non-trading subsidiaries.

Environmental sustainability

The University reduced its carbon footprint by 12.9% during 2011-12 through the implementation of projects specified in the Carbon Management Plan. Since 2009, we have reduced carbon emissions by 25.9% and are on course to meet our target of a 33% reduction by 2014. In recognition of this achievement, we have been nominated for the "Best Newcomer" category in the 2012 Green Gown Awards.

Report of the Board of Governors

To meet the aims of the University's Environmental Sustainability Policy of reducing the environmental impact of operations, projects have been implemented in the key areas of energy, water, waste, travel and awareness:

- **Energy**: 2011-12 was the first year for monitoring compliance with the Carbon Reduction Commitment Energy Efficiency Scheme (CRCEES), introduced by the Government to reduce carbon emissions. In the first performance league table, we were ranked 25th of university participants and placed 350th out of 2,106 participants. Projects implemented include energy efficiency considerations during refurbishment, lighting controls upgrades, rationalisation of meters and alterations to the Building Management System.
- **Water**: The University has joined the "Ripple Effect" programme run by Thames Water to highlight opportunities for water saving. Metering equipment has been installed to monitor out of hours water use and check for leaks.
- **Waste**: The University participated in the Waste and Resources Action Programme "Halving Waste to Landfill" by requiring our refurbishment contractors reduce the amount of waste they send to landfill. We have achieved an 80% recycling rate on refurbishment work, exceeding the 50% reduction specified by the scheme.
- **Travel**: During 2011-12, we joined the London Cycling Campaign and also campaigned directly to the Mayor of London to change junctions and improve safety on the roads for cyclists. As a result, the Mayor instructed Transport for London to fund a pilot scheme to encourage staff and students to cycle safely. The scheme will enhance our existing cycling training and will also benefit two other London universities.
- **Awareness**: Environmental awareness is a key aim of the Carbon Management Plan. 70% of our energy costs arise from electricity consumption, something that all staff and students can influence, so improving awareness has real benefits. We ran a series of events with this aim during 2011-12.

Strategic priority 5:
Investment: accelerating our transformation through ICT

During 2011-12, the University continued its ICT transformation programme, which covers infrastructure improvements, enterprise applications and a culture change programme. Major improvements were made to the University's underlying infrastructure and this will continue in 2012-13.

Achievements include the rollout of an email archiving system; provision of resilient data centres; improved classroom media facilities; improvements to our network and security infrastructure with new firewalls and more capacity on our networks between buildings; introduction of a remote working solution; procurement of a new back-up system; procurement of a new finance system; and roll-out of Employee and Manager HR Self Service.

Service improvements have been recognised by our students: data provided by UNISTATS from the National Student Survey 2011-12 shows that satisfaction of our students with IT services is now at a record 81%.

In 2012-13 the focus is moving to the enterprise applications which will significantly improve the experience of our stakeholders. A culture change programme has also commenced that will finish the transformation of the IT department from a support to a service organisation. To enable this transformation, the department has recently engaged with HM Government's Information Technology Infrastructure Library which is a set of practices for IT services management and has started adopting incident and problem management for the ICT service desk.

Looking ahead, the ICT transformation programme is planned for completion by the end of 2012-13 as is the majority of the current portfolio of initiatives and projects, including implementation of a new finance system. A new ICT strategy will be developed to align with the University's strategic plan from 2013-14.

Future developments

The University is now in the third year of implementation of its Strategic Plan. The major reviews in 2012-13 will be:

- Review of Partnerships; and
- Review of Community and Employer Engagement.

We continue to implement the recommendations from the reviews carried out in 2010-11 and 2011-12, major items being the revalidation of academic programmes in the undergraduate scheme and continuing rationalisation of business processes and organisational structures.

An analysis of progress and the Plan's priorities was conducted by the Board of Governors in May 2012 and concluded that the Plan's main priorities be extended for a further two years, focusing on improving operational planning, more targeted financial resourcing and the redesign and reorganisation of our administrative services. Two key themes were agreed for 2012-13:

- Building a more trusting culture; and
- Jobs.

Although real progress has been made in implementing our transformational 2010-13 Plan, we recognise that the revocation of our UKBA licence has had a major impact on our reputation and resource. These are being addressed through the implementation, beginning in 2012-13, of an Action Plan designed to re-build our academic and financial sustainability.

A Strategic Plan Working Party, comprising representatives of the Board of Governors, management, staff and students, has been formed to examine issues concerning the further development of the University and is due to report in March 2013.

Report of the Board of Governors

Financial forecasts

The Board of Governors and senior management of the University have considered a range of assumptions used to derive financial forecasts for the four years to July 2016. The forecast assumes that we re-apply for Tier 4 Highly Trusted Sponsor status on the earliest date, in March 2013, and this is granted in time for enrolment in 2013-14 with student enrolments rebuilding over three years to the level achieved in 2011-12.

Recruitment of students is very competitive and is challenging for many HEIs, including London Metropolitan University. On the basis of our student number assumptions, the forecast shows that the University decreases in size from 2011-12 to 2012-13.

The forecasts continue to demonstrate the need for business process re-engineering to reduce support costs and improve service efficiency and, as student number forecasts show a decrease in the size of enrolment across all faculties, we have assumed savings will also be delivered from re-sizing the University. An Action Plan has been agreed to deliver net savings of at least £5m per annum from 2013-14 onwards, supported by a restructuring cost provision of £2m per annum. As part of this Plan, we are in the process of appointing an adviser to help us with business process re-engineering and have begun an internal review of our course portfolio, staff base and fees. These will be reviewed in the light of 2012-13 market experience to address the academic health and performance of all subject and curriculum areas and the academic structure and organisation of the University.

An operating deficit of £5.5m is forecast for 2012-13. We forecast a return to an operating surplus of £6.4m in 2013-14 and this is expected to grow over the remainder of the forecast period, supported by gradual increases in student numbers and cost containment.

Although we have a net cash drain of £11.3m in 2012-13 we retain a positive cash balance throughout the period.

Key figures in the financial forecasts for the two years to 31 July 2014 are as follows:

	2012-13 £m	2013-14 £m
Income	125.2	136.6
Staff costs	(80.4)	(80.5)
Other operating expenses	(50.3)	(49.7)
Operating (deficit)/surplus	**5.5**	**6.4**
Non-operating items	(7.7)	15.3
Historical cost (deficit)/surplus	**(13.2)**	**21.7**
Closing cash balance	**15.1**	**24.9**

Key assumptions used to compile the forecasts for 2012-13 and 2013-14 are:

- Grant reductions of £20m from 2011-12 to 2012-13 and £4m from 2012-13 to 2013-14;
- Reduction in forecast home/EU student recruitment of 21% from 2011-12 to 2013-14;
- Restitution of our Tier 4 Highly Trusted Sponsor status in time for enrolment in 2013-14;
- Discretionary fee rates for home/EU undergraduate students increased for inflation for 2013-14 entry;
- Fee rates for postgraduate and international students will rise by inflation from 2012-13;
- A 1% cost-of-living increase for all staff;
- A 1% increase in the London Living Allowance from 2012-13;
- Mandatory pension contribution of 1% for all staff not currently in a pension scheme commencing April 2013;
- A capital programme requiring cash expenditure of £17m in 2012-13 and £20m in 2013-14; and
- Rescheduling of grant repayments to HEFCE.

Principal risks and uncertainties

The Risk Committee, which meets monthly, has been closely monitoring not just the University's specific risks but also the emerging risks to the sector. During the year 2011-12 the major risks to the University have been:

- Failure to adequately manage the student population;
- Failure to deliver the required return from partnerships, joint ventures and other initiatives; and
- Failure to provide accurate student related funding returns and the failure of the resulting management information to be used effectively.

While the overall risk rating and the mitigations against these risks have varied through the year these continue to be the main risks for the University. Risk controls include savings plans, scenario planning, a project management approach to major initiatives and regular review by senior managers. Risks are reported to the Audit Committee and the Board of Governors at each meeting.

Report of the Board of Governors

Post balance sheet events

On 27 September 2012 the Board of Governors approved the transfer of the Women's Library collections and expert staff to the London School of Economics (LSE), subject to the conclusion of a due diligence exercise. The LSE will be the new custodian of the collections from 2013. As part of the agreement with the LSE, the University will transfer the three Women's Library Endowments: Women's Library Trust Fund, Women's History Fellowship Fund and Sadd Brown Library Trust Fund. These funds were valued at £760k as at 31 July 2012.

On 29 November 2012 the Board of Governors approved the delegation of authority to sign Heads of Terms for the sale of the Stapleton House complex.

On 5 December 2012, the University reached agreement with the London School of Business and Finance to end its partnership, while maintaining obligations to students currently on course or in relevant stages of admission.

Donations

The Group makes no political or charitable donations.

Constitution

London Metropolitan University is a company limited by guarantee with no share capital, with up to fifteen members limited in liability to the sum of £1 each.

In the event of winding up, each member of the University and any person who ceased to be a member within one year of the date of the winding up is liable to contribute a sum not exceeding £1.

Auditors

A resolution to re-appoint KPMG LLP as auditors will be proposed at the next Annual General Meeting.

The financial statements on pages 25 to 53 were approved by the Board of Governors of London Metropolitan University on 29 November 2012 and were signed on its behalf on 13 December 2012 by:

Clive Jones
Chair of Board of Governors

166-220 Holloway Road
London N7 8DB

Date: 13 December 2012

Members of the Board of Governors

The members of the Board of Governors of London Metropolitan University as at 31 July 2012 are listed below. Unless otherwise stated, all members served throughout the year.

	Date of appointment
Clive Jones (Chair, AS, F, G, R [Chair])	
Mark Robson (Vice-Chair, F [Chair], R)	
Syed Ali (AS, S, E)	15 November 2011
Kathryn Castle (AS, E)	
Dr. Kay Dudman (E)	
Katherine Farr (A [Chair], G)	
Emir Feisal (A, HS, AS)	
Professor Malcolm Gillies (AS, E, F, G, R) (Vice-Chancellor and Chief Executive)	
Rob Hull (A, AS)	
Maureen Laurie (F, R)	
Tony Millns (G [Chair], R)	
Ann Minogue (F, W [Chair])	
Daleep Mukarji (A, HS [Chair])	
Dianne Willcocks (AS [Chair], G)	

Resignations since 1 August 2011 were as follows:

	Date of resignation
Claire Locke (E, S)	15 November 2011
Laura Carstensen (F, W [Chair])	19 March 2012
Dr. Kay Dudman (E)	30 September 2012
Syed Ali (AS, S, E)	20 November 2012

Appointments since 31 July 2012 were as follows:

Adnan Pavel was the appointed as Students' Union Representative governor on 20 November 2012.

Ian Jennings was appointed as staff governor on 23 October 2012.

Richard Indge was appointed as an independent co-opted member of the Audit Committee on 3 November 2011.

In their capacity as directors, none of the Board of Governors held any interest in any contract with the University. Five of the directors who served during the year to 31 July 2012 had contracts with the University in their capacity as employees. None of the directors had a beneficial interest in any group company.

(A) Member of Audit Committee
(AS) Member of Academic Strategy Committee
(E) University Employee
(F) Member of Finance and Resources Committee
(G) Member of Governance Committee
(HS) Member of Health and Safety Assurance Group
(R) Member of Remuneration Committee
(S) Students' Union Representative
(W) Member of Women's Library Council

Executive Group and advisers

The members of the Executive group of London Metropolitan University as at 31 July 2012 are listed below. Unless otherwise stated, all members served throughout the year.

Executive group

Vice-Chancellor and Chief Executive	Professor Malcolm Gillies
Deputy Vice-Chancellor	Professor Peter McCaffery
Deputy Chief Executive	Paul Bowler
Clerk to the Board of Governors and University Secretary	Alison Wells
Director of Finance	Pam Nelson
Director of Human Resources	Lyn Link

Advisers

Auditors	KPMG LLP 15 Canada Square Canary Wharf London E14 5GL
Bankers	Barclays Bank Plc Holloway & Kingsland Business Centre London E8 2JK
	Standard Chartered Bank Plc 1st Floor H-2 Connaught Circus New Delhi 110 001 India
	Standard Chartered Bank (Pakistan) Ltd New Garden Tower Branch 1/4 Usman Block New Garden Town Lahore Pakistan
	Standard Chartered Bank (Nigeria) Ltd 105B Ajose Adeogun Street P.M.B. 80038 Victoria Island, Lagos Nigeria
	Bank of China Dongzhimen Branch No. 35 Dongzhimenwai Dajie Dongcheng District Beijing 100027 China

Executive Group and advisers

Endowment Investment Custodians	Fidelity Investments Oakhill House Hildenborough Tonbridge Kent TN11 9DZ
Endowment Investment Managers	Henderson Global Investors Ltd 201 Bishopsgate London EC2M 3AE
Insurers	Gallagher Heath Focal Point 27-35 Fleet Street Swindon SN1 1RG Zurich Municipal Southwood Crescent Farnborough Hampshire GU14 0NJ
Internal Auditors	PricewaterhouseCoopers LLP 1 Embankment Place London WC2N 6RH
Property Advisers	DTZ Debenham Tie Leung Ltd 125 Old Broad Street London EC2N 2BQ
Solicitors	Michelmores LLP Woodwater House Pynes Hill Exeter Devon EX2 5WR Shoosmiths LLP Russell House 1550 Parkway Solent Business Park Fareham, Whiteley Hampshire PO15 7AG Veale Wasbrough Vizards Orchard Court Orchard Lane Bristol BS1 5WS Weightmans LLP Second Floor, 6 New Street Square New Fetter Lane London EC4A 3BF

Statement of responsibilities of the Board of Governors

The Education Reform Act 1988 vested the custody and control of all assets and affairs in the Board of Governors of the University.

The principal responsibilities of the Board of Governors, as set out in article 9 of the University's Articles of Association, are as follows:

(a) the determination of the educational character and objectives of the University and the supervision of its activities

(b) the effective and efficient use of resources, the solvency of the University and the safeguarding of its assets

(c) the approval of annual estimates of income and expenditure

(d) the determination of membership of the Senior Staff, save that the Vice-Chancellor and Chief Executive, and the Secretary, shall always be a member of the Senior Staff

(e) the appointment, appraisal, discipline, suspension and dismissal, and the determination of the grading, pay and conditions of service, of the Senior Staff

(f) the determination of the policy for pay and general conditions of employment of the Staff who are not Senior Staff

(g) the appointment of the Auditors and the keeping of accounts and records

(h) the establishment and maintenance of machinery for promoting engagement between the University and industry, commerce, the professions, other universities, other educational establishments, research organisations and local communities.

The Companies Act 2006 and the Financial Memorandum with the HEFCE require the Board of Governors to ensure that financial statements are prepared for each financial year which give a true and fair view of the state of affairs of the University and the Group, and of the income and expenditure, cash flows and recognised gains and losses of the group for that period.

In causing the financial statements to be prepared, the Board has to ensure that:

- suitable accounting policies are selected and then applied consistently;
- judgments and estimates are made that are reasonable and prudent;
- applicable accounting standards and statements of recommended practice are followed. Any material departures are disclosed and explained in the financial statements; and
- the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the group will continue in operation.

To assist the members of the Board of Governors in discharging its ultimate responsibility, the University's Finance and Resources Committee and, where appropriate, the Audit Committee, is responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy at any time the financial position of the University and the Group and to enable it to ensure that the financial statements comply with the Companies Act 2006, the Accounts Direction issued by HEFCE and the Statement of Recommended Practice: Accounting for Further and Higher Education. The Finance and Resources Committee and the Audit Committee also have responsibilities for ensuring that the assets of the group are safeguarded and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Members of the Board of Governors are responsible for ensuring that funds from HEFCE are used only in accordance with the Financial Memorandum with HEFCE and any other conditions which HEFCE may from time to time prescribe. Members of the Board must ensure that there are appropriate financial and management controls in place sufficient to safeguard public funds and ensure that they are used only in accordance with the conditions under which they have been made available. In addition, members of the Board are responsible for promoting the economic, efficient and effective management of the University's resources and expenditure, so that the benefits derived from the application of public funds provided by HEFCE are not put at risk.

Statement of corporate governance

This statement is intended to help readers understand the corporate governance procedures that are in place at the University. It covers the period from 1 August 2011 to the date of approval of the audited financial statements.

The moral and ethical environment

The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership). These principles form part of the University's Code of Practice for Members of the Board of Governors (available at http://www.londonmet.ac.uk/foi/classes/).

In accordance with these principles the University maintains a register of governors' interests, which is available at http://www.londonmet.ac.uk/foi/classes/lar.cfm . All governors are asked to declare their interests on appointment and at least annually thereafter. Members are asked to declare any interests they may have in business on the agenda at the beginning of each meeting of the Board and its sub-committees.

Profiles of the governors and a list of their charity trusteeships (updated annually) is also available at http://www.londonmet.ac.uk/foi/classes/.

The Board has regard to the voluntary Governance Code of Practice, contained in the 'Guide for Members of Higher Education Governing Bodies in the UK' published by the Committee of University Chairs. As a charity the Board has had regard to the Charity Commission's guidance on public benefit.

How the University is governed

The University is a company limited by guarantee and an exempt charity, which means that the governors are simultaneously company directors and charity trustees. Its governing document is the Memorandum and Articles of Association, which was last revised in 2010 and is available at http://www.londonmet.ac.uk/foi/classes/.

The Board consists of staff, student and independent (non-executive) members, and is structured so that the independent members form an absolute majority. The roles of Chair and Chief Executive (Vice-Chancellor) are separated. The Chair and Vice-Chair are elected annually. The Articles stipulate that neither staff nor student members of the Board are eligible to serve as Chair or Vice-Chair of the Board. There is thus a clear division of responsibility.

The Board is responsible for the ongoing strategic direction of the University, its financial solvency, approval of major developments, and the receipt of regular reports from the Executive on the day-to-day operations of the University and its subsidiary companies. Under the Articles of Association a number of matters are reserved to the Board. The Academic Board is responsible for academic matters, subject to the overall responsibility of the Board of Governors for determining the educational character and mission of the institution.

Governance during the year

In the year to 31 July 2012 the Board met six times. In addition it held a Strategy Day, when governors considered how to develop the Strategic Plan 2010-2013 beyond its three year initial duration. The Board decided to extend the Strategic Plan (which is available at http://www.londonmet.ac.uk/about/mission.cfm) and draw out the themes of "Building a More Trusting Culture" and "Jobs" as special themes for 2012-13.

The Board's sub-committees are:

- Academic Strategy Committee (met twice in 2011-12)
- Audit Committee (met three times in 2011-12)
- Finance and Resources Committee (met four times in 2011-12)
- Governance Committee (met three times in 2011-12)
- Health and Safety Assurance Group (met once in 2011-12)
- Remuneration Committee (met twice in 2011-12)

All of these committees are formally constituted with appropriate terms of reference which were reviewed in the year. The Board of Governors receives minutes of their meetings. The majority of each committee's membership consists of independent governors and the chair is always an independent governor.

The Academic Strategy Committee, chaired by Dianne Willcocks, provides a link between the Academic Board and the Board of Governors. Amongst other things, it oversees and monitors student retention, progression and achievement.

The Audit Committee, chaired by Katherine Farr, reviews the work of the internal and external auditors and considers their reports, together with recommendations for the improvement of the systems of internal control and management responses and implementation plans. It reviews the University's annual financial statements and the appropriateness of its accounting policies. It also provides oversight of the risk management process on the Board's behalf. The committee receives and considers reports from HEFCE insofar as they affect the University's business and monitors adherence to regulatory requirements. Members of the Executive attend Audit Committee meetings as necessary, but are not members of it. The Chair of the Board is not a member and does not attend. During the year the Committee co-opted Richard Indge as an independent member. He is not a member of the Board of Governors and serves only on the Audit Committee.

The Finance and Resources Committee, chaired by Mark Robson, reviews and recommends to the Board of Governors the University's annual capital and revenue budgets and the financial forecasts submitted to HEFCE. Its role includes inter alia reviewing the University's financial regulations and its draft financial statements, monitoring financial performance, and considering estates and human resources matters. During the year Mark Robson was appointed to the Board of HEFCE. This is considered to give him a declarable interest in every meeting he attends and his interest is declared accordingly.

The Governance Committee, chaired by Tony Millns, is responsible for making recommendations to the Board about filling vacancies in Board and Committee membership and about the award of honorary degrees. It has a remit to consider any governance matters and is leading the preparation for a Board effectiveness review.

Statement of corporate governance

The Health and Safety Assurance Group, chaired by Daleep Mukarji, is responsible for the oversight and monitoring of health and safety. It reports through the Audit Committee. Operational matters are considered by the Health and Safety Committee, which is an executive committee.

The Remuneration Committee, chaired by Clive Jones, considers the salaries and terms and conditions of service of senior staff, including the Vice-Chancellor and Chief Executive.

Internal control

The Board of Governors is responsible for ensuring a sound system of internal control to support the University's policies and objectives. It is responsible for safeguarding the public and other funds available to the University under the Financial Memorandum with HEFCE.

Internal control is designed to manage rather than eliminate the risk of failing to achieve business objectives. It can only provide reasonable, not absolute, assurance against material misstatement or loss. It is also designed to prevent and detect fraud and other irregularities.

The system of internal control is informed by a continuous process to identify, evaluate and manage the University's significant risks, linked to the achievement of institutional objectives. This process covers business, operational and compliance as well as financial risk, and has been in place for the year ended 31 July 2012 and up to the date of approving these financial statements.

The effectiveness of the system of internal control is assessed in the following ways:

- The University's appetite for risk was discussed by the Board and formalised in a Statement of Risk Appetite in September 2011;
- The Board reviews the Statement of Risk Appetite, Risk Management Strategy and Risk Management Policy at least annually. There is a clear policy and plan of risk management, which has been communicated to the Faculties and Professional Service Departments of the University;
- The Corporate Risk Register is updated throughout the year and identifies the main risk owners and risk-mitigating actions. Risks are scored by likelihood and impact and are ranked accordingly. Risk registers are also maintained for each Faculty and Professional Support Department, as well as for major projects in which the University is involved;
- The Executive Group meets monthly as a Risk Committee to review all aspects of the Corporate Risk Register;
- The Board receives at each meeting a report on the Corporate Risk Register and changes to it since the previous meeting. In September 2012 it was agreed that a report of each meeting of the Risk Committee should be provided to all Board members by e-mail;
- The Audit Committee considers the Corporate Risk Register at each meeting and oversees the arrangements for risk management. Members of the Board receive the minutes of each meeting of the Audit Committee;
- Each year the Audit Committee approves a programme of specific internal audits for the following year, in addition to a programme of continuous auditing of the core financial systems. The programme of internal audit is based around a structured assessment of system risks within the University's operations;
- The Audit Committee receives reports from the internal auditors at each meeting. These reports provide an independent opinion of the adequacy and effectiveness of the University's arrangements for risk management and the internal control systems, together with appropriate recommendations; and
- The Director of Finance and the University Secretary attend meetings of the Audit Committee and have direct and independent access to members of that Committee, as do the internal and external auditors.

The Board, through the Audit Committee, has reviewed the effectiveness of the system of internal control operating in 2011-12 and up to the date of this statement.

Significant internal control issues

One issue of significant internal control arose during the year, namely the UKBA's suspension and subsequent revocation of the University's Highly Trusted Sponsor (HTS) licence.

The University's licence was suspended in July 2012 and revoked in late August. This attracted, and continues to attract, significant public interest for two reasons: firstly, because of the large number of overseas students who come to London to study at the University and whose studies were suddenly placed in jeopardy; and secondly, because no UK university had previously had its licence revoked. The Board of Governors took independent legal advice and decided to seek judicial review of the UKBA's decision and interim relief from it. The High Court granted both applications. The University is now preparing for a judicial review hearing in early 2013. Meanwhile work is ongoing to understand fully the financial impact of the revocation and its implications for the University.

The financial statements on pages 25 to 53 were approved by the Board of Governors of London Metropolitan University on 29 November 2012 and were signed on its behalf on 13 December 2012 by:

Clive Jones
Chair of the Board of Governors

Malcolm Gillies

Professor Malcolm Gillies
Vice-Chancellor and Chief Executive
Date: 13 December 2012

Independent auditor's report to the Board of Governors of London Metropolitan University (Company Registration Number: 974438)

We have audited the Group and University financial statements (the financial statements) of London Metropolitan University for the year ended 31 July 2012 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. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Board of Governors, in accordance with paragraph 77 of the University's Articles of Association 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 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Board of Governors and to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Board of Governors, the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Board of Governors and auditor

As explained more fully in the Statement of Responsibilities set out on page 20, the Board of Governors (whose members are also the directors of the company for the purposes of company law) is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those auditing standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the affairs of the Group and University as at 31 July 2012 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education and the Companies Act 2006; and
- have been prepared in accordance with the Companies Act 2006.

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

In our opinion, in all material respects:

- funds from whatever source administered by the Group and the University for specific purposes have been applied to those purposes; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Financial Highlights and Report of the Governors for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the Board of Governors of London Metropolitan University (Company Registration Number: 974438)

Matters on which we are required to report by exception

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

- the statement of internal control (included as part of the Report of the Board of Governors) is inconsistent with our knowledge of the Group and the University.

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

Andrew Sayers
(Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL

Date: 20 December 2012

Consolidated income and expenditure account

	Notes	2011-12 £'000	2010-11 £'000
Income			
Funding body grants	*1*	58,454	68,465
Tuition fees	*2*	84,870	76,607
Research grants and contracts	*3*	2,570	2,876
Other operating income	*4*	8,833	9,094
Endowment income and interest receivable	*5*	939	711
Total income		**155,666**	**157,753**
Expenditure			
Staff costs	*6*	86,321	95,000
Staff restructuring costs	*6*	3,121	2,261
Other operating expenses	*8*	54,117	47,756
Depreciation	*12*	8,748	8,780
Interest payable and other finance costs	*9*	2,110	2,064
Total expenditure		**154,417**	**155,861**
Surplus for the year on continuing operations after depreciation of assets at valuation and disposal of assets		**1,249**	**1,892**
Exceptional items	*10*		
Surplus on disposal of freehold property		15,752	-
Onerous obligations under operating leases		(2,186)	(6,268)
Surplus/(deficit) for the year on continuing operations after exceptional items	*23*	**14,815**	**(4,376)**
Surplus for the year transferred from accumulated income in endowment reserve	*14, 23*	52	60
Surplus/(deficit) for the year retained within general reserves		**14,867**	**(4,316)**

All items of income and expenditure arise from continuing operations.

Consolidated statement of historical cost surplus/(deficit)

	Notes	2011-12 £'000	2010-11 £'000
Surplus/(deficit) for the year on continuing operations before and after tax		**14,815**	(4,376)
Difference between historical cost depreciation charge and the actual charge calculated on valuation of assets	*23*	**24**	104
Historical cost surplus/(deficit) for the year		**14,839**	(4,272)

Balance sheets

	Notes	Group 2012 £'000	Group Restated 2011 £'000	University 2012 £'000	University Restated 2011 £'000
Fixed assets					
Tangible assets	*11,12*	130,540	138,657	126,930	134,756
Investments	*13*	64	64	64	319
		130,604	**138,721**	**126,994**	**135,075**
Endowment asset investments	*14*	**1,326**	**1,242**	**1,326**	**1,242**
Current assets					
Stock	*15*	60	73	51	28
Debtors	*16*	8,436	11,914	8,908	12,289
Asset held for sale	*17*	8,663	2,610	8,663	2,610
Current asset investments	*18*	41,640	35,500	41,640	35,500
Cash at bank and in hand		5,487	4,538	5,399	4,500
		64,286	**54,635**	**64,661**	**54,927**
Creditors					
Amounts falling due within one year	*19*	(40,849)	(44,440)	(40,536)	(44,313)
Net current assets		**23,437**	**10,195**	**24,125**	**10,614**
Total assets less current liabilities		**155,367**	**150,158**	**152,445**	**146,931**
Creditors					
Amounts falling due after more than one year	*20*	(18,565)	(27,848)	(18,565)	(27,848)
Provisions for liabilities	*21*	(10,955)	(10,365)	(10,955)	(10,365)
Total net assets excluding pension liability		**125,847**	**111,945**	**122,925**	**108,718**
Net pension liability	*24*	(73,168)	(57,775)	(73,168)	(57,775)
Total net assets including pension liability		**52,679**	**54,170**	**49,757**	**50,943**
Represented by:					
Deferred capital grants	*22*	**63,351**	**65,456**	**60,215**	**62,067**
Endowments					
Expendable		433	403	433	403
Permanent		893	839	893	839
	14	**1,326**	**1,242**	**1,326**	**1,242**
Reserves					
General reserve	*23*	60,368	41,861	60,582	42,023
Pension reserve	*23,24*	(73,168)	(57,775)	(73,168)	(57,775)
Revaluation reserve	*23*	802	3,386	802	3,386
Total reserves		**(11,998)**	**(12,528)**	**(11,784)**	**(12,366)**
Total funds		**52,679**	**54,170**	**49,757**	**50,943**

The Financial Statements on pages 25 to 53 were approved by the Board of Governors of London Metropolitan University on 29 November 2012 and were signed on its behalf on 13 December 2012 by:

Clive Jones
Chair of the Board of Governors

Professor Malcolm Gillies
Vice-Chancellor and Chief Executive

Registered company number: 974438

Consolidated cash flow statement

	Notes	2011-12 £'000	2010-11 £'000
Net cash (outflow)/inflow from operating activities	*27*	(5,293)	2,909
Returns on investments and servicing of finance	*28*	124	173
Capital receipts/(expenditure)	*29*	11,569	(6,439)
Management of liquid resources	*30*	(6,263)	9,333
Financing	*31*	812	(2,470)
Increase in cash in the year		**949**	**3,506**

Reconciliation of net cash flow to movement in net funds

Increase in cash in the year		**949**	**3,506**
Change in short term deposits	*30*	6,263	(9,333)
Change in debt: loans	*31*	(1,279)	2,065
Change in debt: finance leases	*31*	467	405
Change in net funds in the year	*32*	**6,400**	**(3,357)**
Net funds brought forward from previous year	*32*	31,412	34,769
Net Funds at 31 July	*32*	**37,812**	**31,412**

Consolidated Statement of total recognised gains and losses

	Notes	2011-12 £'000	2010-11 £'000
Surplus/(deficit) for the year		**14,867**	**(4,316)**
Unrealised (loss)/gain on endowment asset investments	*14*	(40)	69
Net additions to endowment asset investments	*14*	124	70
Adjustment to reserves brought forward - deferred capital grants		-	101
Actuarial (loss)/gain recognised in the LPFA pension fund	*24*	(14,337)	23,483
Total recognised gains for the year		**614**	**19,407**
Prior year adjustment		-	(6,250)
Total gains recognised since last financial statements		**614**	**13,157**
Reconciliation:			
Opening reserves and endowments	*14, 23*	(11,286)	(30,693)
Total recognised gains for the year		614	19,407
Closing reserves and endowments	*14, 23*	**(10,672)**	**(11,286)**

Prior year adjustment

The 2010-11 prior year adjustment of £6,250k is made up of two adjustments the first, for £8,623k, represents the restatement of the LPFA pension liability to recognise fully the effect of unfunded liabilities which previously had not been included in the LPFA pension fund actuarial valuation. The second adjustment for, (£2,373k), represents the release of the enhanced pension provision following the restatement of the FRS17 liability referred to above.

Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's financial statements.

(A) Basis of preparation

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

The financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education and in accordance with applicable Accounting Standards.

Going concern

The Board of Governors has examined financial forecasts based upon these audited financial statements and estimates of income, expenditure and cash flow for the period to 31 July 2016. For the purpose of this going concern review, the Board has focused on the period to 31 July 2014.

The revocation by the UK Border Agency in August 2012 of our Highly Trusted Sponsor status, which meant that the University was unable to enrol new students under Tier 4 visas, together with a difficult market for UK and other European Union students as higher variable fees were introduced across the sector, caused a reduction in our forecast income of £37m in 2012-13 compared to the approved budget for the year.

Mitigation has been put into place to reduce the immediate impact of this by containment of costs. Cost savings of £20m have been identified across the University, including reductions in both non staff expenditure and staffing costs. As a result, the University forecasts an operating deficit for 2012-13 of approximately £5m, before returning to operating surplus in 2013-14.

The University also has deferred £8m of inessential capital expenditure for 2012-13. The sale of a surplus property is expected in 2013-14 which will generate cash in excess of £20m. The exact sales figure and date of sale will depend on planning permissions, however unconditional and conditional offers have been received and a preferred bidder selected.

An Action Plan has been agreed by the Board which covers nine key action areas to achieve our vision of a renewed London Metropolitan University to re-build our academic and financial sustainability.

The principal creditor of the University is HEFCE, which was owed a total of £3.7m in respect of interest-free loans and £20.0m in respect of repayments of grant as at 31 July 2012. The Board believes that the financial forecasts show that the University has sufficient cash resources in place, however the deferral of the amounts due to HEFCE would provide additional headroom for the University. HEFCE has indicated that it will give positive consideration to rescheduling payments over the next few years. The University will be subject to monitoring by HEFCE as part of the agreed rescheduling of the debt, to reflect the targets and milestones in the Action Plan. The financial forecasts show that the University expects to remain cash positive throughout 2012-13, although there is a net cash reduction of £11m. Included in this forecast are cautious assumptions regarding income generation.

Although the University has been adversely affected by the economic downturn and resultant general pressure on public sector funding, some of which has already been reflected in HEFCE funding and other public announcements, and which affect all institutions in the sector, the Board is satisfied that the reviews described in the University's Strategic Plan, together with the Action Plan, will address the need for further net savings to ensure the financial sustainability of the University.

The Board recognises that there remain financial challenges facing the University which include:

- Regaining Highly Trusted Sponsor Status to allow time for enrolment in 2013-14;
- Achieving fee income targets from enrolment;
- Achieving sufficient cost savings in both the short term and medium term; and
- Achieving the performance metrics agreed with HEFCE to ensure the deferral of repayments.

Based upon its review of the financial forecasts for the period to 31 July 2014, which include income and expenditure accounts, balance sheets and a monthly cash flow forecast, together with the Action Plan, the Board is satisfied that these financial statements are properly prepared on a going concern basis.

The Board considers that the use of the going concern basis is appropriate because, at the date of approval of the financial statements, it is not aware of any material uncertainties related to events or conditions that might cast significant doubt as at the date of approval of the financial statements about the ability of the University to continue as a going concern.

(B) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the University and all its subsidiary undertakings for the financial year to 31 July.

Intra-group transactions are eliminated on consolidation.

Under the exemption in Section 230 of the Companies Act 2006, the University is not required to present its own income and expenditure account. The University's operating surplus for the year ended 31 July 2012 is £1,301k (2010-11: £2,037k).

Accounting policies

(C) Income recognition

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

Fee income is credited to the income and expenditure account using a time-apportionment method over the period of the course. It is stated gross of scholarships, fee waivers and provisions for doubtful debts, all of which are included in other operating expenses. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount.

Grants for specific purposes, including research grants and contracts, are included in income to the extent that expenditure is incurred during the financial year, together with any related contributions towards overhead costs. Deferred credits, which are attributable to subsequent financial years, are included in creditors under the classification of accruals and deferred income.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants and are amortised to the income and expenditure account in line with the depreciation policy over the life of the related asset.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowment, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowments in the balance sheet.

Changes in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, are added to or subtracted from the funds concerned and shown in the balance sheet by adjusting the relevant endowment asset and fund. These changes are reported in the statement of total recognised gains and losses.

The University acts as an agent in the collection and payment of training bursaries from the Teaching Agency and of Access Funds from HEFCE. Related payments received from the Teaching Agency and HEFCE and subsequent disbursements to students are excluded from the income and expenditure account.

Grants for specific purposes, including research grants and contracts, are included in income to the extent that expenditure is incurred during the financial year, together with any related contributions towards overhead costs. Deferred credits, which are attributable to subsequent financial years, are included in creditors under the classification of accruals and deferred income.

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Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resource can be measured with sufficient reliability. Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments.

(D) Taxation status

The Institution is an exempt charity within the meaning of schedule 3 of the Charities Act 2011 (formerly schedule 2 of the Charities Act 1993). It is considered to pass the tests set out in Paragraph 1 Schedule 6 Finance Act 2010 and therefore meets the definition of a charitable company for UK corporation tax purposes. Accordingly, the Institution is potentially exempt from taxation in respect of income or capital gains received within categories covered by section 287 CTA2009 and sections 471 and 478-488 CTA 2010 (formerly s505 of ICTA 1988) and section 256 of the Taxation of Chargeable Gains Act 1992, to the extent such income or gains are applied to exclusively charitable purposes.

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 undertakings are subject to corporation tax and VAT in the same way as any commercial organisation.

Accounting policies

(E) Tangible fixed assets

Upon implementation of FRS15: Tangible Fixed Assets, the University opted to include assets in its books at historical cost or revalued cost at the date of introduction of the FRS. No regular revaluation of assets is undertaken by the University. Periodic revaluations are undertaken to assess whether any impairment has occurred that would require adjustment to the carrying amount. A review of impairment of a fixed asset is carried out if events or changes in circumstances indicate that the carrying amount of any fixed asset may not be recoverable.

(i) Land and buildings

Freehold and leasehold land and buildings are shown in the balance sheet at historical cost or, where assets were transferred to the University at nil cost, at their valuation on transfer (deemed cost).

The freehold and leasehold interests in properties occupied by London College of Furniture, which merged with London Guildhall University on 1 April 1990, were formally transferred to the University with effect from 1 April 1991. These properties, with the exception of 41-71 Commercial Road, are shown in the balance sheet at valuation at 31 July 1993 less accumulated depreciation. The freehold property at Central House is included in the balance sheet at valuation on 17 August 1996 less accumulated depreciation.

Freehold land is not depreciated as it is considered to have an indefinite useful life.

Freehold buildings are depreciated over 50 years or their remaining expected economic life if shorter. Leasehold buildings are depreciated over the unexpired period of the lease or their remaining expected economic life, if shorter.

Alterations and building improvements are depreciated over 20 years or their remaining expected economic useful life, if shorter.

(ii) Assets held under finance leases

Leasing agreements that 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. Such assets are included in fixed assets and are depreciated over the shorter of the lease term or their useful economic life. The capital elements of the leasing commitments are shown in creditors as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the capital element outstanding.

(iii) Assets held under operating leases

The annual rentals arising from operating leases are charged to operating profit on a straight line basis over the lease term.

(iv) Assets under construction

Assets under construction are accounted for at cost, and are not depreciated until they have been completed.

(v) Assets used by the University

A value is attributed to the benefit of assets which the University does not own and for which no annual rental is paid. The assets are included in fixed assets at their valuation, with a corresponding credit to deferred capital grants, and thereafter depreciated over the period of use.

(vi) Assets acquired or modified with the aid of specific grants

Where buildings are acquired or modified with the aid of specific grants, they are capitalised and depreciated. The related grants are credited to a deferred capital grant account and released to the income and expenditure account over the expected useful economic life of the related asset on a straight line basis, consistent with the depreciation policy.

(vii) 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. The University has a planned maintenance programme, which is reviewed on an annual basis.

(viii) Heritage assets

A heritage asset is an asset with historic or artistic qualities that is held and maintained principally for its contribution to knowledge and culture. The University has a number of these assets in the form of furniture, books, pamphlets, periodicals and visual materials. These assets are not capitalised as reliable cost information is not available and conventional valuation approaches lack sufficient reliability.

(ix) Equipment and furniture

Equipment and furniture costing less than £6,000 per individual item or group of items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised.

Capitalised equipment and furniture is shown in the balance sheet at cost and depreciated over its expected useful life, as follows:

Computers, major software systems, other equipment and furniture - over 5 years

Boiler system - over 25 years

Accounting policies

(F) Stock

All stock is included in the financial statements at the lower of cost and net realisable value.

(G) Pension scheme arrangements

The principal pension schemes for the University's staff are the Teachers' Pension Scheme (TPS) and the Universities' Superannuation Scheme ('USS') for academic staff, and the London Pensions Fund Authority (LPFA) scheme for non-academic staff.

The schemes are statutory, contributory, defined benefit and are contracted out of the State Earnings-Related Pension Scheme. The LPFA scheme and the funds of the USS are valued every three years. The funds of the TPS are normally valued every five years. In the intervening years, the actuaries review the progress of the schemes.

The University is able to identify its share of the underlying assets and liabilities of the LPFA scheme and thus fully adopt FRS17. The scheme assets are measured at fair values. Scheme liabilities are measured on an actuarial basis using the projected unit method and are discounted at appropriate high quality bond rates.

It is not possible to identify the University's share of the underlying assets and liabilities in the TPS and USS schemes and hence, using the exemption under FRS17, contributions to the scheme are accounted for as if they were defined contribution schemes. The employer contributions payable to the schemes are charged as expenditure in the period to which they relate.

(H) Investments

Investments in subsidiaries and associated undertakings are shown in the University's balance sheet at cost less any provision for impairment in their value.

Endowment asset investments are included in the University's balance sheet at market value.

(I) Cash flows and liquid resources

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

Liquid resources comprise assets held as a readily disposable store of value, including term deposits, government securities and loan stock held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

(J) Provisions and contingent liabilities

Provisions are recognised when the University has a present legal or constructive obligation 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.

Provisions for staff-related restructuring costs are recognised when the University has confirmed redundancy to the members of staff concerned.

The University provides for its onerous obligations under operating leases, including future rental costs and the estimated cost of dilapidations, at the date where the decision to vacate the properties has been ratified by the Board of Governors. The estimated timings and amounts of liabilities are estimated using the advice of external property experts.

Contingent liabilities arise where either the obligation is possible rather than present, or the outflow of economic benefit is possible rather than probable, or there is an inability to measure the economic outflow; these are disclosed by way of a note.

(K) Bad debt provision

Debtors are included in the financial statements net of provision for doubtful debts. The basis of calculation of the provision is reviewed each year end to reflect current levels of debt recovery.

(L) Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transaction. Monetary assets and liabilities denominated in foreign currencies are shown in the balance sheet at the rate of exchange ruling at the year end date. Exchange differences are dealt with in the income and expenditure account.

Notes to the financial statements

	2011-12 £'000	2010-11 £'000
1. Funding body grants		
Recurrent grants		
Higher Education Funding Council for England (HEFCE)	49,047	54,203
Teaching Agency (TA)	2,721	2,789
Specific grants		
Higher Education Innovation Fund	1,547	2,600
Inherited pension liabilities	1,189	1,072
Inherited property costs	-	3,831
Centres for Excellence in Teaching and Learning	-	268
Other	202	108
Deferred capital grants released		
Buildings	2,251	2,272
Equipment	1,497	1,322
	58,454	**68,465**
2. Tuition fees		
Full-time students:		
Home and EU fees	47,138	39,215
Overseas fees	23,592	22,578
Part-time fees	14,140	14,814
	84,870	**76,607**
3. Research grants and contracts		
Research councils	451	461
UK based charities	362	355
European Commission	1,104	1,078
Other	653	982
	2,570	**2,876**
4. Other operating income		
Other grants and contracts	321	498
Consultancy	863	688
Other income generating activities	3,464	4,311
Sale of materials and other departmental income	524	525
Rental income and hire of facilities	328	349
Student registration income	1,000	133
Validation income	600	216
Catering income	251	303
Deferred capital grants released - non HEFCE	615	772
Miscellaneous income	867	1,299
	8,833	**9,094**
5. Endowment income and interest receivable		
Income from endowment investments	14	8
Income receivable from short-term investments	810	595
Other interest receivable	115	108
	939	**711**

Notes to the financial statements

6. Staff costs

		2011-12 £'000	2010-11 £'000
Costs:	Academic staff	50,226	55,142
	Other staff	36,095	39,858
		86,321	**95,000**
Comprising:	Wages and salaries	70,304	77,491
	Social security costs	6,037	6,464
	Pension costs	9,980	11,045
		86,321	95,000
Staff restructuring costs		3,121	2,261
		89,442	**97,261**

The average number of full-time equivalent (FTE) employees during the year was:

	2011-12	2010-11
Academic staff	955	1,023
Other staff	877	1,000
	1,832	**2,023**

7. Remuneration of directors and higher-paid staff

A. Directors

The University's Board of Governors do not receive remuneration from the University in their capacity as governors. During the year five governors (2010-11: six) were remunerated in their capacity as employees of the University. The figures below relate entirely to these governors on a pro rata basis for their period in office.

	2011-12 £'000	2010-11 £'000
Directors' emoluments		
Salaries	341	384
Pension contributions	50	57
	391	**441**
Highest paid director		
Vice-Chancellor and Chief Executive (appointed 25 January 2010)		
Salary	254	254
Pension contributions	41	41
	295	**295**

During the year £2k (2010-11: 9k) was paid in respect of governors' expenses. A total of five governors received expenses (2011: Thirteen).

B. Higher-paid staff

The number of other higher-paid staff (excluding the Vice-Chancellor and Chief Executive) who received remuneration (excluding pension contributions) in the following ranges was:

	No.	No.
£100,001 to £110,000	2	3
£110,001 to £120,000	1	1
£130,001 to £140,000	-	2
£140,001 to £150,000	3	1
£160,000 to £170,000	2	1
£180,001 to £190,000	-	1
£290,000 to £300,000	-	1
	8	**10**

There were no higher-paid staff in receipt of compensation for loss of office in 2011-12. In 2010-11 three higher paid staff received compensation totalling £337k. This compensation is included in the remuneration shown in the table above.

Notes to the financial statements

	2011-12 £'000	2010-11 £'000
8. Other operating expenses		
University bursaries	5,595	5,982
Other student awards	2,549	2,983
Student travel and expenses	1,320	1,401
Books and periodicals	1,755	1,633
Consumables and laboratory materials	1,329	1,354
Examination and degree expenses	345	920
Franchise costs	1,819	1,339
Staff development and other related costs	4,876	6,253
Inherited pension liabilities	1,173	334
Operating leases - property	4,369	4,402
Operating leases - equipment	771	454
Insurance	536	561
Energy and water	2,493	2,399
Repairs and maintenance	4,915	4,166
Rates	565	443
Other facilities costs	2,122	2,258
IT maintenance and licences	1,632	1,910
Print costs	486	449
Postage, stationery and telecommunications	533	747
External auditors' remuneration (audit) KPMG	94	94
External auditors' remuneration (other) KPMG	5	-
External auditors' remuneration (audit) Grant Thornton	-	14
External auditors' remuneration (other) Grant Thornton	-	23
Internal auditors' remuneration (audit)	132	169
Internal auditors' remuneration (other)	92	21
Other external audit fees	6	4
Legal and other professional fees	574	591
Consultancy and overseas agency fees	2,850	2,597
Publicity	1,518	1,582
Subscriptions	622	525
HEFCE student number control penalty	7,427	-
Other expenses	1,614	2,148
	54,117	**47,756**

The HEFCE student number control penalty includes an accrual of £1.5m representing the expected penalty that the University will be liable to pay in 2012-13 for student over recruitment in 2011-12.

9. Interest payable and other finance costs

	2011-12 £'000	2010-11 £'000
Interest payable on bank loans, overdrafts and other loans, repayable wholly or partly in less than five years	48	31
Interest payable on bank loans, overdrafts and other loans, repayable wholly or partly in more than five years	-	44
Finance lease	359	333
Net charge on pension scheme deficit	1,703	1,656
	2,110	**2,064**

10. Exceptional items

	2011-12 £'000	2010-11 £'000
Surplus on disposal of freehold property	15,752	-
Onerous obligations under operating leases	(2,186)	(6,268)
	13,566	**(6,268)**

On 18 August 2011 the University completed the sale of 100 Minories, a freehold property in Tower Hill, London EC3N 1JY, to Grange Hotels Limited for £18.6m. The sale generated a surplus on disposal of £15.8m.

The onerous obligations under operating leases for 2011-12 of £2,186k comprises a provision for future rent and estimated other obligations for Spring House of £2,358k, together with the release, at carrying value, of capital expenditure relating to alterations and improvements of £123k, less a reduction in the 2011-12 provision for Salisbury House of £295k following the dilapidations settlement with the landlord in June 2012.

Notes to the financial statements

11. Tangible fixed assets (Group)

	Land and buildings					Equipment	
	Freehold £'000	Under construction £'000	Alterations and improvements £'000	Short finance leasehold £'000	Long leasehold £'000	Equipment and furniture £'000	Total £'000
Cost							
At 1 August 2011	103,330	141	47,980	7,551	10,675	23,313	192,990
Additions	-	716	5,495	-	-	3,239	9,450
Disposals	-	-	(203)	-	-	(906)	(1,109)
Transfers	(11,024)	(141)	(1,127)	-	-	-	(12,292)
At 31 July 2012	**92,306**	**716**	**52,145**	**7,551**	**10,675**	**25,646**	**189,039**
Depreciation							
At 1 August 2011 - restated	21,619	-	10,623	4,396	1,005	16,690	54,333
Charge for year	2,159	-	2,677	290	210	3,412	8,748
Eliminated on disposal	-	-	(47)	-	-	(906)	(953)
Transfers	(3,285)	-	(344)	-	-	-	(3,629)
At 31 July 2012	**20,493**	**-**	**12,909**	**4,686**	**1,215**	**19,196**	**58,499**
Net book value at 31 July 2012	**71,813**	**716**	**39,236**	**2,865**	**9,460**	**6,450**	**130,540**
Net book value at 31 July 2011 - restated	**81,711**	**141**	**37,357**	**3,155**	**9,670**	**6,623**	**138,657**
Cost of land included in above	**9,734**	**-**	**-**	**1,174**	**-**	**-**	**10,908**

Alterations and improvements

The alterations and improvements net book value can be allocated to the various categories of fixed assets as detailed below. An additional £7,117k of net book value relates to alterations and improvements undertaken on properties held under operating leases.

	Freehold	Under construction	Alterations and improvements	Short finance leasehold	Long leasehold	Equipment and furniture	Total
Net book value at 31 July 2012	**27,020**	**-**	**-**	**4,663**	**436**	**-**	**32,119**

The carrying value transferred from freehold land and buildings of £7,739k and from assets under construction and alterations and improvements of £924k represents the re-classification of two freehold academic properties and one freehold residential property as assets held for sale (note 17).

London Metropolitan University occupies premises in Jewry Street rent free under a right of use from Sir John Cass's Foundation, by virtue of a Charity Commission Scheme dated 24 April 1970, under Section 18 of the Charities Act 1960. The University has the obligation to repair and maintain the building. Jewry Street is included in 'long leasehold' buildings at a valuation of £9.5m. This valuation was prepared for the University on an existing use basis by Drivers Jonas LLP in October 2008.

The 'short finance leasehold' building relates to the Learning Centre at Holloway Road. The building is leased to the University for 25 years from January 1995, with an option to buy at a fixed price after 20 years.

The most recent valuation of the group's properties, prepared by Drivers Jonas LLP as at 31 July 2009, found that there was no impairment in value.

Notes to the financial statements

12. Tangible fixed assets (University)

	Land and buildings					Equipment	
	Freehold £'000	Under construction £'000	Alterations and improvements £'000	Short finance leasehold £'000	Long leasehold £'000	Equipment and furniture £'000	Total £'000
Cost							
At 1 August 2011	99,426	141	47,234	7,551	10,675	20,578	185,605
Additions	-	716	5,495	-	-	3,239	9,450
Disposals	-	-	(203)	-	-	(906)	(1,109)
Transfers	(11,024)	(141)	(1,127)	-	-	-	(12,292)
At 31 July 2012	**88,402**	**716**	**51,399**	**7,551**	**10,675**	**22,911**	**181,654**
Depreciation							
At 1 August 2011- restated	20,930	-	10,461	4,396	1,005	14,057	50,849
Charge for year	1,963	-	2,640	290	210	3,354	8,457
Eliminated on disposal	-	-	(47)	-	-	(906)	(953)
Transfers	(3,285)	-	(344)	-	-	-	(3,629)
At 31 July 2012	**19,608**	**-**	**12,710**	**4,686**	**1,215**	**16,505**	**54,724**
Net book value at 31 July 2012	**68,794**	**716**	**36,689**	**2,865**	**9,460**	**6,406**	**126,930**
Net book value at 31 July 2011- restated	78,496	141	36,773	3,155	9,670	6,521	134,756
Cost of land included in above	**9,734**	**-**	**-**	**-**	**1,174**	**-**	**10,908**

Alterations and improvements

The alterations and improvements net book value can be allocated to the various categories of fixed assets as detailed below. An additional £7,117k of net book value relates to alterations and improvements undertaken on properties held under operating leases.

	Freehold	Under construction	Alterations and improvements	Short finance leasehold	Long leasehold	Equipment and furniture	Total
Net book value at 31 July 2012	**26,473**	**-**	**-**	**4,663**	**436**	**-**	**31,572**

The University owns a number of heritage assets, described below, which are not included in the balance sheet of London Metropolitan University:

The Women's Library is widely acknowledged to be the UK's most extensive library on all aspects of women in society, and has an international reputation as a research resource. It was established in 1926 and moved to London Guildhall University in 1977. It contains over 60,000 books and pamphlets dating from 1600 onwards, and includes three main collections: the Cavendish Bentick Collection, the Sadd Brown Library, and the Josephine Butler Society Library. In addition it has over 2,500 periodical titles, over 300 archival collections, a large visual materials collection and many other resources. The collections, including all books and pamphlets, will be transferring to the LSE in 2013.

The TUC Library Collection, established in 1922, was transferred to the University of North London in 1996. The holdings include reference and historical works on the trades union movement, union publications from the UK and overseas, documents relating to working conditions and industrial relations in various industries and countries, and material collected from the various campaigns and policy areas in which the TUC has been involved since its foundation in 1868. The TUC Library Collection is housed in the Learning Centre, Holloway Road.

The Irish History Archive consists of materials donated in a number of different media over the last twenty years, the most significant of which is the Paul Hill Prison Letters (1974-89). The original collections were inherited by the University from the Irish in Britain History Group in 1989 and have been substantially augmented since.

The Frederick Parker Collection is made up of a chairs exhibit and associated archives. The Collection is one of Britain's foremost study collections of British chairs from 1600 to the present day. There are 167 chairs in the Collection of which 140 are on view. Archives include photographs of every Frederick Parker model made between 1872 and 1939, some on glass plates, the complete range of their reference books, and many drawings of proposed items for specific customers. The Collection is housed at 44 Commercial Road.

Notes to the financial statements

13. Investments

	1 August 2011 £'000	Impairment in value £'000	31 July 2012 £'000
Group			
CVCP Properties plc	64	-	64
	64	-	**64**
University			
CVCP Properties plc	64	-	64
London Metropolitan University Enterprises Limited	-	-	-
Metropolitan New Media Limited	255	(255)	-
	319	**(255)**	**64**

CVCP Properties plc
CVCP Properties plc was set up by the Committee of Vice-Chancellors and Principals (now known as Universities UK) to buy and manage their headquarters building. The University has a small (less than 20%) shareholding in the company.

Subsidiaries
All of the subsidiary undertakings below are registered and incorporated in England (except for London Metropolitan University Nigeria Limited) and are wholly owned by the University.

London Metropolitan University Enterprises Limited
The principal business activities of London Metropolitan University Enterprises Limited are the provision of consultancy services and a print centre. The deficit for this subsidiary in 2011-12 is £52k (2010-11: £145k) and the net assets at 31 July 2012 are £2,941k (2011: £3,228k).

Metropolitan New Media Limited
The principal business activity of Metropolitan New Media Limited was the provision of training courses in multimedia and information technology. Its activities were transferred to London Metropolitan University Enterprises Limited with effect from 1 May 2003. The only remaining activity was the payment of rent on the Shoreditch building. This ceased on 15 April 2011 when the lease on the Shoreditch building was transferred to the University. The company has been dormant, as defined in section 480 (1) of the Companies Act 2006, throughout 2011-12. The deficit for this subsidiary in 2011-12 is nil (2010-11: £3k) and the net assets at 31 July 2012 are nil (2011: £255k). The University's investment in the company of £255k was eliminated in 2011-12.

London Metropolitan University Nigeria Limited
The principal business activity of the company is to provide qualitative counselling to students wishing to study at London Metropolitan University on behalf of the University. The company does not trade in its own right and the University has no material investment in the company. The company is registered and incorporated in Nigeria. The surplus for this subsidiary in 2010-11 was £4k (2009-10: £7k) and the net assets at 31 July 2011 were £31k (2010: £28k). The 2011-12 accounts are currently being prepared.

Notes to the financial statements

14. Endowment asset investments (University and Group)

	2012 £'000	2011 £'000
Endowment assets		
Balance at 1 August	1,242	1,103
Capital (depreciation)/appreciation of endowment asset investments	(40)	69
Maturity of fixed interest stocks	-	(96)
Increase in cash balances held for endowment funds	140	149
(Decrease)/Increase in debtor balances	(16)	17
Balance at 31 July	**1,326**	**1,242**
Represented by:		
Shares in Henderson Managed Growth Fund	854	898
Cash and short term investments	422	299
Fixed interest stocks	23	18
Unit trusts	27	27
Total	**1,326**	**1,242**

	Restricted Permanent £'000	Restricted Expendable £'000	2012 £'000	2011 £'000
Endowment reserves				
Balance at 1 August				
Capital	775	339	1,114	961
Accumulated income	64	64	128	142
	839	**403**	**1,242**	**1,103**
New endowments	111	65	176	130
Investment income	3	11	14	8
Expenditure	(17)	(49)	(66)	(68)
	(14)	(38)	(52)	(60)
(Decrease)/Increase in market value of investments	(43)	3	(40)	69
Balance at 31 July	**893**	**433**	**1,326**	**1,242**
Represented by:				
Capital	842	379	1,221	1,114
Accumulated income	51	54	105	128
	893	**433**	**1,326**	**1,242**

	2012 £'000	2011 £'000
Top ten endowment funds by value:		
Women's Library Trust Fund	636	568
Lord Limerick Memorial Bursary Fund	152	108
Women's History Fellowship Trust Fund	96	102
Rubber Fund	104	100
Teaching Studies Fund	57	54
Library Fund	45	48
Sadd Brown Library Trust Fund	27	28
Wood Brothers Prize Fund	26	28
D Osbourne Prize Fund	16	15
Bursary Fund	14	14
	1,173	**1,065**

The University has one linked (paragraph (w)) charity which is the Fawcett Library Trust Fund comprising the Women's Library Trust Fund, Women's History Fellowship Fund and the Sadd Brown Library Trust Fund. The Fund received donations of £111k (2010-11: £122k) and generated income of £3k (2010-11: £1k). The capital is invested in a managed growth fund. The Fund will be transferred to the LSE in 2013 along with the Women's Library collections.

Notes to the financial statements

	2012 £'000	Restated 2011 £'000

15. Stocks

	2012 £'000	Restated 2011 £'000
Group		
Raw materials	33	-
Work in progress	2	-
Goods purchased for resale	25	73
	60	**73**
University		
Raw materials	28	-
Goods purchased for resale	23	28
	51	**28**

16. Debtors

	2012 £'000	Restated 2011 £'000
Group		
Amounts falling due within one year:		
Trade debtors	4,106	8,145
Loans to staff and students	113	151
Other debtors	99	62
Prepayments and accrued income	4,118	3,556
	8,436	**11,914**
University		
Amounts falling due within one year:		
Trade debtors	4,085	8,069
Loans to staff and students	113	151
Other debtors	64	60
Prepayments and accrued income	4,118	3,533
Amounts due from subsidiary companies	528	476
	8,908	**12,289**

Included in amounts due from subsidiary companies are two loans for £298k and £300k respectively made to London Metropolitan University Enterprises Limited. The first loan commenced on 1 April 2009 with the principal being repayable over 20 years. The interest rate being charged is based on the average Bank of England base rate for the year + 1.0%.

The second loan for £300k was made on 4 April 2012 to cover working capital requirements as activities in the company are being wound down and transferred into the University.

17. Asset held for sale (University and Group)

	2012 £'000	Restated 2011 £'000
Carrying value of asset held for sale previously classified under fixed assets (notes 11 and 12)		
Freehold property academic - land	2,098	50
Freehold property academic - building	5,581	2,560
Freehold property academic - alterations and improvements	924	-
Freehold property residential- building	60	-
	8,663	**2,610**

The assets held for sale in 2011-12 comprises three freehold academic properties; Stapleton House, Eden Grove and Index House together with a freehold residential property in Stradbroke Grove. The asset held for sale in 2011 related to a freehold property known as 100 Minories, Tower Hill. On 18 August 2011 the University completed the sale of this property. The sale generated a surplus on disposal of £15.8m.

Notes to the financial statements

	2012 £'000	2011 £'000
18. Current asset investments (University and Group)		
Deposits maturing in one year or less	**41,640**	**35,500**

Investments comprise short-term deposits with more than 24 hours maturity at the balance sheet date placed with banks and building societies operating in the London market and licensed by the Financial Services Authority.

The interest rates for these deposits are fixed for the duration of the deposit at the time of placement.

At 31 July 2012 the weighted average interest rate of the fixed rate deposits was 1.8% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 75 days. The fair value of these deposits was not materially different from the book value.

19. Creditors - amounts falling due within one year

	2012 £'000	2011 £'000
Group		
Bank mortgage, HEFCE and other loans	635	610
Trade creditors	10,671	11,426
Deferred HEFCE grants and amounts owed to HEFCE	10,034	10,023
Taxation and pension contributions	2,845	3,294
Obligations under finance lease	537	467
Other creditors	511	65
Accruals	7,777	6,967
Deferred income	7,839	11,588
	40,849	**44,440**
University		
Bank mortgage, HEFCE and other loans	635	610
Trade creditors	10,419	11,185
Deferred HEFCE grants and amounts owed to HEFCE	10,034	10,023
Taxation and pension contributions	2,845	3,294
Obligations under finance lease	537	467
Other creditors	503	57
Accruals	7,742	6,803
Deferred income	7,821	11,552
Amounts due to subsidiary companies	-	322
	40,536	**44,313**

Notes to the financial statements

20. Creditors - amounts falling due after more than one year (University and Group)

	2012 £'000	2011 £'000
Bank mortgage (secured)		
Principal payable between one and two years	122	114
Principal payable between two and five years	270	391
Principal payable after five years	-	1
	392	**506**
HEFCE grant holdback		
Payable between one and two years	10,000	10,000
Payable between two and five years	-	10,000
	10,000	**20,000**
HEFCE Strategic Development Fund loan (interest free, unsecured)		
Principal payable between two and five years	**3,361**	**1,534**
HEFCE loan (interest free, unsecured)		
Principal payable between one and two years	-	349
	-	**349**
Finance lease obligations (secured)		
Principal payable between one and two years	611	537
Principal payable between two and five years	3,926	4,537
	4,537	**5,074**
SALIX energy efficiency loans (interest free, unsecured)		
Principal payable between one and two years	171	154
Principal payable between two and five years	104	231
	275	**385**
Total	**18,565**	**27,848**

The bank mortgage is secured on Eden Grove and is repayable in quarterly instalments until September 2016 at a fixed rate of interest of 6.69%.

The HEFCE grant holdback relates to overpayments of grant for the years 2005-06 to 2007-08 that were made to the University by HEFCE and represent an adjustment to teaching grant. The total amount repayable was £36,525k, of which £183k was repaid in 2008-09, £2.0m in 2009-10, £4.3m in 2010-11 and £10.0m in 2011-12. £10.0m has been transferred to Creditors – amounts falling due within one year (note 19) as this is due in 2012-13.

The HEFCE Strategic Development Fund loan was received on 29 July 2011. Further amounts are due to the University in 2012-13. The loan will be repaid in 2014-15.

The HEFCE loan was provided for the construction of the Law Building, and is repayable in annual equal instalments over a period of 10 years until June 2013.

The SALIX energy efficiency loans were awarded for investment in energy-efficient technologies. Five loans were awarded to the University in 2010-11. One loan was awarded in 2011-12. They are repayable in two equal instalments per annum (except for 2010-11 where one repayment was due). The loans (apart from the loan awarded in 2011-12) will be fully repaid in September 2014, and the remaining loan will be fully repaid in September 2015.

Notes to the financial statements

21. Provisions for liabilities (University and Group)

	2011-12 £'000	2010-11 £'000
Restructuring provision		
At 1 August	1,470	-
Increase	231	1,470
Release of provision	(1,470)	-
At 31 July	**231**	**1,470**
Onerous obligations under operating leases		
At 1 August	8,895	735
Increase	2,358	8,499
Release of provision	(829)	(339)
At 31 July	**10,424**	**8,895**
Contract claims		
At 1 August	-	-
Increase	300	-
At 31 July	**300**	**-**
Building contracts		
At 1 August	-	185
Release of provision	-	(185)
At 31 July	**-**	**-**
Total		
At 1 August	10,365	920
Increase	2,889	9,969
Release of provision	(2,299)	(524)
At 31 July	**10,955**	**10,365**

The restructuring provision relates to staff given notice of compulsory redundancy before 31 July 2012, but who have not as at the date that these financial statements were signed, had their last date of service confirmed.

The University vacated leased properties at 133 Whitechapel High Street and 100 Hornsey Road in 2009-10, Salisbury House in June 2012 and 2 Goulston Street and, Ladbroke House in July 2012. The University is planning to vacate a further leased property, Spring House, in August 2013. This has resulted in the provision for onerous obligations under operating leases being increased by £2,358k. The provision reflects the University's estimated residual obligations under these leases. The 2010-11 provision for Salisbury House of £633k has been released in full following a dilapidations settlement reached with the landlord in June 2012. There has also been a release of the 2010-11 provision amounting to £196k representing the operating costs for 2011-12 for 133 Whitechapel High Street.

The contract claim provision relates to a disputed claim from a supplier for works carried out under a service contract.

Notes to the financial statements

22. Deferred capital grants

	Group			University		
	HEFCE £'000	Other grants £'000	Total £'000	HEFCE £'000	Other grants £'000	Total £'000
At 1 August 2011						
Buildings	47,109	17,400	64,509	47,109	14,095	61,204
Equipment	861	86	947	861	-	861
	47,970	17,486	65,456	47,970	14,095	62,065
Cash received						
Buildings	445	-	445	445	-	445
Equipment	1,827	-	1,827	1,827	-	1,827
	2,272	**-**	**2,272**	**2,272**	**-**	**2,272**
Released to income and expenditure account						
Buildings	2,251	564	2,815	2,251	360	2,611
Equipment	1,497	51	1,548	1,497	-	1,497
Grant released following sale of freehold property	14	-	14	14	-	14
	3,762	**615**	**4,377**	**3,762**	**360**	**4,122**
At 31 July 2012						
Buildings	45,289	16,836	62,125	45,303	13,735	59,024
Equipment	1,191	35	1,226	1,191	-	1,191
	46,480	**16,871**	**63,351**	**46,494**	**13,735**	**60,215**

23. Reserves

	Revaluation £'000	Income and expenditure £'000	Pension £'000	Total £'000
Group				
At 1 August 2011	3,386	41,861	(57,775)	(12,528)
Transfer in respect of:				
Disposal on revalued freehold academic property	(2,560)	2,560	-	-
Depreciation on revalued freehold property	(24)	24	-	-
Surplus for the year	-	14,815	-	14,815
Transfer from endowment reserve (note 14)	-	52	-	52
Actuarial loss on pension fund (note 24)	-	-	(14,337)	(14,337)
FRS 17 interest cost	-	1,703	(1,703)	-
Difference between FRS 17 pension charge and cash contribution	-	(647)	647	-
At 31 July 2012	**802**	**60,368**	**(73,168)**	**(11,998)**
University				
At 1 August 2011	3,386	42,023	(57,775)	(12,366)
Transfer in respect of:				
Disposal on revalued freehold academic property	(2,560)	2,560	-	-
Depreciation on revalued freehold property	(24)	24	-	-
Surplus for the year	-	14,867	-	14,867
Transfer from endowment reserve (note 14)	-	52	-	52
Actuarial loss on pension fund (note 24)	-	-	(14,337)	(14,337)
FRS 17 interest cost	-	1,703	(1,703)	-
Difference between FRS 17 pension charge and cash contribution	-	(647)	647	-
At 31 July 2012	**802**	**60,582**	**(73,168)**	**(11,784)**

Notes to the financial statements

24. Pension arrangements (University and Group)

The University contributes to three defined benefit pension schemes; the LPFA, the TPS and the USS. The latter two are multi-employer schemes and, as set out below, are treated under FRS 17 as defined contribution schemes. The LPFA is accounted for under FRS 17 as a defined benefit scheme.

A. The London Pensions Fund Authority (LPFA) Fund

The LPFA Fund (the Fund) provides members with benefits related to pay and service at rates which are defined under the Local Government Pension Scheme Regulations 1997. To finance these benefits assets are accumulated in the Fund and held separately from the assets of the University.

The University pays contributions to the Fund at rates determined by the Fund's actuaries, based on regular actuarial reviews of the financial position of the Fund. From August 2011 to July 2012, the employer's contribution rate payable by the University was 18.6% of pensionable salaries.

The University's contribution to the Fund for 2011-12 was £4.4m (2010-11: £5.0m). The University's estimated contribution to the Fund for 2012-13 is £4.0m.

The Fund has variable employee contribution rates dependent on the employee's pensionable salary. These rates range from 5.5% to 7.5%.

The pension cost, which includes the liability for pension increases, has been determined in accordance with the advice from the Fund actuary, Barnett Waddingham, and is based on an actuarial valuation as at 31 March 2010 using the projected unit method. The rates certified at the actuarial valuation as at 31 March 2010 applied from the year 2011-12. The main financial assumptions in the 2010 actuarial valuation were:

Rate of investment return	6.7% per annum
Rate of salary increases	4.5% per annum
Rate of pension increases	3.0% per annum

The actuarial valuation as at 31 March 2010 showed that the market value of the Fund's assets attributable to the University was estimated at approximately £127.26m and that the actuarial value of those assets represented 90% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases.

The valuation showed that, with effect from 1 April 2011, the required level of long-term contributions to be paid by the University to the Fund was 18.6% of pensionable payroll. This contribution rate is calculated to be sufficient to cover the employer's liabilities. This comprises a future service rate of 11.8% of pensionable payroll, together with a past service adjustment of 6.8%. The future service rate of contribution is the rate that, in addition to contributions paid by members, is sufficient to meet the liabilities arising in respect of service after the valuation.

The actuarial valuation dated 31 March 2010 was published on 29 March 2011. The next actuarial valuation is due as at 31 March 2013.

LPFA – FRS 17 statements

The University participates in a defined benefit scheme in the UK, operated by the LPFA. A full FRS17 actuarial valuation was carried out as at 31 July 2012 by the Fund actuary, Barnett Waddingham.

The major assumptions used by the actuary were as follows:

	2012	2011	2010
Rate of increase in salaries	3.5%	4.5%	4.7%
Rate of increase in pensions in payment - RPI	2.6%	3.5%	3.2%
Rate of increase in pensions in payment - CPI	1.8%	2.7%	2.7%
Discount rate	3.9%	5.3%	5.4%
Inflation assumption	1.8%	2.7%	2.7%

The current mortality assumptions include sufficient allowance for future improvements in mortality rates.

The assumed life expectations on retirement at age 65 are:

	Years
Current pensioners	
Males	20.9
Females	23.9
Future pensioners (retiring in 20 years)	
Males	22.9
Females	25.8

Notes to the financial statements

24. Pension arrangements (Continued)

	Long term rate of return expected at 31 July 2012	Value at 31 July 2012 £'000	Long term rate of return expected at 31 July 2011	Value at 31 July 2011 £'000	Long term rate of return expected at 31 July 2010	Value at 31 July 2010 £'000
Equities	5.6%	103,923	6.8%	100,515	7.3%	90,115
Target return portfolio	4.3%	14,637	4.5%	16,024	4.5%	15,672
Alternative assets	4.6%	23,419	5.8%	20,394	6.3%	19,590
Cash	0.5%	4,391	3.0%	5,827	3.0%	2,612
Other bonds	n/a	-	5.3%	2,913	5.4%	2,612
Total		**146,370**		**145,673**		**130,601**

Net pension liability (University and Group)

The following amounts at 31 July related to London Metropolitan University measured in accordance with the requirements of FRS17:

	2012 £'000	2011 £'000	2010 £'000
Fair value of employer assets	146,370	145,673	130,601
Present value of Fund liabilities	(209,317)	(192,269)	(199,988)
Present value of unfunded liabilities	(10,221)	(11,179)	(10,961)
Total value of liabilities	(219,538)	(203,448)	(210,949)
Net pension liability	**(73,168)**	**(57,775)**	**(80,348)**

Analysis of the amount charged to the income and expenditure account

	2011-12 £'000	2010-11 £'000
Current service costs	4,662	5,565
Interest on Fund liabilities	10,741	10,416
Expected return on Fund assets	(9,038)	(8,760)
Losses on curtailments and settlements	996	16
Total charge to income and expenditure account	**7,361**	**7,237**
Actual return on Fund assets	**1,693**	**13,734**

Analysis of amount recognised in consolidated statement of total recognised gains and losses (STRGL)

Actual return less expected return on Fund assets	(7,346)	4,972
Experience gains arising on Fund liabilities	636	38,442
Changes in assumptions	(7,627)	(19,931)
Actuarial (losses)/gains recognised in STRGL	**(14,337)**	**23,483**
Cumulative actuarial (losses)/gains recognised in STRGL	**(9,992)**	**4,345**

Notes to the financial statements

24. Pension arrangements (continued)

Movement in the University's share of the Fund's deficit

The movement in the University's share of the Fund's deficit during the year is made up as follows:

	2011-12 £'000	2010-11 £'000
At 1 August	(57,775)	(80,348)
Movement in year:		
Current service cost	(4,662)	(5,565)
Contributions by employer	5,189	5,153
Contributions in respect of unfunded benefits	1,116	1,174
Impact of curtailments and settlements	(996)	(16)
Net return on assets	(1,703)	(1,656)
Actuarial (losses)/gains	(14,337)	23,483
At 31 July	**(73,168)**	**(57,775)**

Analysis of the movement in the present value of the Fund's liabilities

	2011-12 £'000	2010-11 £'000
At 1 August	203,448	210,949
Movement in year:		
Current service cost	4,662	5,565
Interest cost	10,741	10,416
Contributions by members	1,676	1,831
Contributions in respect of unfunded benefits	(1,116)	(1,174)
Actuarial losses/(gains)	6,991	(19,128)
Impact of curtailments and settlements	996	16
Estimated benefits paid	(7,860)	(5,027)
At 31 July	**219,538**	**203,448**

Analysis of movement in the market value of the Fund's assets

	2011-12 £'000	2010-11 £'000
At 1 August	145,673	130,601
Movement in year:		
Expected rate of return on Fund assets	9,038	8,760
Contributions by members	1,676	1,831
Contributions by the employer including unfunded benefits	6,305	6,327
Actuarial (losses)/gains	(7,346)	4,355
Estimated benefits paid including unfunded benefits	(8,976)	(6,201)
At 31 July	**146,370**	**145,673**

Experience gains and losses

	2011-12 £'000	2010-11 £'000	2009-10 £'000	2008-09 £'000	2007-08 £'000
Defined benefit obligation	(219,538)	(203,448)	(210,949)	(190,847)	(156,454)
Fund assets	146,370	145,673	130,601	113,691	113,897
Deficit	(73,168)	(57,775)	(80,348)	(77,156)	(42,557)
Experience adjustments on Fund assets	(7,346)	4,355	3,593	(15,987)	(17,622)
Percentage of assets	(5.0)%	3.0%	(2.8)%	(14.1)%	(15.5)%
Experience adjustments on Fund liabilities	636	39,059	715	-	10,480
Percentage of liabilities	0.3%	19.2%	0.3%	0.0%	6.7%
Cumulative actuarial gains and losses	(39,067)	(24,730)	(48,213)	(44,366)	(1,209)

Notes to the financial statements

24. Pension arrangements (continued)

B. The Teachers' Pension Scheme (TPS)

The Teachers' Pension Scheme is a statutory, contributory, final salary scheme, administered by the Teachers' Pensions Agency in accordance with the Teachers' Pensions Regulations 1997, as amended. Contributions are credited to the Exchequer on a "pay as you go" basis under arrangements governed by the Superannuation Act 1972. A notional asset value is ascribed to the Scheme for the purposes of determining contribution rates.

Under definitions set out in FRS 17, the TPS is a multi employer pension scheme. The University is unable to identify its share of the underlying (notional) assets and liabilities of the scheme. Accordingly the University has accounted for its contributions to the scheme as if it was a defined contribution scheme.

As from January 2007 contributions are paid by the University and charged to the income and expenditure account at a rate of 14.1% of pensionable salaries.

The University's contribution to the TPS for 2011-12 was £5.0m (2010-11: £5.2m). The University's estimated contribution to the scheme for 2012-13 is £4.1m.

The last valuation of the TPS related to the period 1 April 2001 to 31 March 2004. The Government Actuary's report of October 2006 revealed that the total liabilities of the Scheme (pensions currently in payment and the estimated cost of future benefits) amounted to £166,500 million. The value of the assets (estimated future contributions together with the proceeds from the notional investments held at the valuation date) was £163,240 million. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The rate of real earnings growth is assumed to be 1.5%. The assumed gross rate of return is 6.5%.

As from 1 January 2008, and as part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution has been assessed at 19.75%, plus a supplementary contribution rate of 0.75% (to balance assets and liabilities as required by the regulations within 15 years); a Standard Contribution rate (SCR) of 20.5%. This translates into an employee contribution rate of 6.4% and employer contribution rate of 14.1% payable. The cost-sharing agreement has also introduced, effective for the first time from the 2008 valuation, a 14.1% cap on employer contributions payable.

The 2006 interim actuarial review, published in June 2007, did not recommend any changes to the SCR and concluded, as at 31 March 2006, and using the above assumptions, that the Scheme's total liabilities amounted to £176,600 million.

On 15 March 2012, it was confirmed that the next actuarial review of the scheme will take place in advance of the implementation of the scheme reforms in 2015. The Government has also announced that it has decided to replace the cap and share with increases in employee contributions.

C. The Universities Superannuation Scheme (USS)

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension.

The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. The University is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, accounts for the scheme as if it were a defined contribution scheme.

The cost recognised in the income and expenditure account is regarded as being equal to the contributions payable to the scheme for the year. The University's contribution to the USS for 2011-12 was £0.3m (2010-11: £0.5m). The University's estimated contribution to the scheme for 2012-13 is £0.3m, payable by the University at 16% of pensionable salaries.

At 31 March 2012, USS had over 145,000 active members and the University had 41 active members participating in the scheme.

The latest triennial actuarial valuation of the scheme was at 31 March 2011. This was the second valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. The actuary also carries out regular reviews of the funding levels. In particular, he carries out a review of the funding level each year between triennial valuations and details of his estimate of the funding level at 31 March 2012 are also included in this note.

The triennial valuation was carried out using the projected unit method. The assumptions which have the most significant effect on the result of the valuation are those relating to the rate of return on investments (ie the valuation rate of interest), the rates of increase in salary and pensions and the assumed rates of mortality. The financial assumptions were derived from market yields prevailing at the valuation date. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum).

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for three years following the valuation then 2.6% thereafter.

The assumed life expectations on retirement at age 65 are:

Males (females) currently aged 65	23.7 (25.6) years
Males (females) currently aged 45	25.5 (27.6) years

At the valuation date, the value of the assets of the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7 million indicating a shortfall of £2,910.2 million. The assets therefore were sufficient to cover 92% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Notes to the financial statements

24. Pension arrangements (continued)

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilt basis, using a valuation rate of interest in respect of past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (ie assuming the Scheme had discontinued on the valuation date) the assets would have been approximately 57% the amount necessary to secure all the USS benefits with an insurance company; and using the FRS17 formula as if USS was a single employer scheme, using a AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level at 31 March 2011 was 82%.

As part of the valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation and contributions are paid at the determined rates or amounts, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

The technical provisions relate essentially to the past service liabilities and funding levels, but it is also necessary to assess the ongoing cost of newly accruing benefits. The cost of future accrual was calculated using the same assumptions as those used to calculate the technical provisions but the allowance for promotional salary increases was not as high. Analysis has shown very variable levels of growth over and above general pay increases in recent years, and the salary growth assumption built into the cost of future accrual is based on more stable, historic, salary experience. However, when calculating the past service liabilities of the scheme, a cautionary reserve has been included, in addition, on account of the variability mentioned above.

As at the valuation date the scheme was still a fully Final Salary Scheme for future accruals and the prevailing employer contribution rate was 16% of salaries.

Following UK government legislation, from 2011 statutory pension increases or revaluations are based on the Consumer Prices Index measure of price inflation. Historically these increases had been based on the Retail Prices Index measure of price inflation.

Since the previous valuation as at 31 March 2008 there have been a number of changes to the benefits provided by the scheme although these became effective from October 2011. These include:

New entrants
Other than in specific, limited circumstances, new entrants are now provided on a Career Revalued Benefits (CRB) basis rather than a Final Salary (FS) basis.

Normal pension age
The normal pension age was increased for future service and new entrants, to aged 65.

Flexible retirement
Flexible retirement options were introduced.

Member contributions increased
Contributions were uplifted to 7.5% p.a. and 6.5% p.a. for FS Section members and CRB Section members respectively.

Cost sharing
If the total contribution level exceeds 23.5% of salaries per annum, the employers will pay 65% of the excess over 23.5% and members will pay the remaining 35% to the fund as additional contributions.

Pension increase cap
For service derived after 30 September 2011, USS will match increases in official pensions for the first 5%. If official pensions increase by more than 5% then USS will pay half of the difference up to a maximum increase of 10%.

Since 31 March 2011 global investment markets have continued to fluctuate and following its peak in September 2011 have declined rapidly towards the year end, although the market's assessment of inflation has remained reasonably constant. The actuary has estimated that the funding level as at 31 March 2012 under the scheme specific funding regime had fallen from 92% to 77%. This estimate is based on the results from the valuation at 31 March 2011 allowing primarily for investment returns and changes to market conditions. These are seen as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2012 estimation.

On the FRS 17 basis, using an AA bond discount rate of 4.9% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2012 was 74%. An estimate of the funding level measured on a historic gilt basis at that date was approximately 56%.

Surpluses or deficits which arise at future valuations may impact on the University's future contribution commitment. A deficit may require additional funding in the form of higher contribution requirements, where a surplus could, perhaps, be used to similarly reduce contribution requirements.

USS is a 'last man standing' scheme so that, in the event of the insolvency of any of the participating employers in USS, the amount of any pension funding shortfall (which cannot otherwise be recovered) in respect of that employer will be spread across the remaining participant employers and reflected in the next actuarial valuation of the scheme.

The next formal triennial actuarial valuation is due as at 31 March 2011 and will incorporate allowances for scheme benefit changes and any changes the trustee makes to the underlying actuarial assumptions. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

Notes to the financial statements

	2012 £'000	2011 £'000

25. Capital commitments

At 31 July the University and the Group had capital commitments as follows:

	2012 £'000	2011 £'000
Commitments contracted	2,420	3,823
Authorised but not contracted	5,380	3,553
	7,800	**7,376**

26. Commitments under operating leases

At 31 July the University and the Group had annual commitments under non-cancellable operating leases as follows:

	2012 £'000	2011 £'000
Land and buildings:		
Expiring within one year	46	119
Expiring within one - two years	42	-
Expiring within two - five years	1,860	715
Expiring in over five years	2,153	3,591
Other:		
Expiring within one year	410	544
Expiring within one - two years	76	-
Expiring within two - five years	-	5
	4,587	**4,974**

Of these commitments £1,860k (2011-12: £1,753k) is included within the provision for onerous obligations under operating leases.

27. Reconciliation of surplus/(deficit) on continuing operations to net cash inflow from operating activities

	2011-12 £'000	2010-11 £'000
Surplus/(deficit) on continuing operations	14,815	(4,376)
Depreciation	8,748	8,780
Deferred capital grants released to income	(4,363)	(4,366)
Deferred capital grants released to exceptional item	-	(684)
Interest payable	2,110	2,064
Decrease/(increase) in stocks	13	(1)
Decrease in debtors	3,688	397
Decrease in creditors	(13,752)	(7,487)
Increase in provisions	590	9,365
Endowment income and interest receivable	(939)	(711)
Donations received	(54)	(120)
Difference between pension charge and cash contributions	(647)	(746)
Exchange rate loss/(gain)	127	(56)
(Profit)/loss on sale of fixed assets	(15,629)	850
Net cash (outflow)/inflow from operating activities	**(5,293)**	**2,909**

28. Returns on investments and servicing of finance

	2011-12 £'000	2010-11 £'000
Donations received	54	120
Interest paid	(398)	(398)
Income from endowments	14	8
Other interest received	454	443
Net cash inflow	**124**	**173**

Notes to the financial statements

	2011-12 £'000	2010-11 £'000
29. Capital receipts/(expenditure)		
Purchase of tangible fixed assets	(9,450)	(16,794)
Receipts from sale of fixed assets	18,571	331
Net deferred capital grants received	2,272	9,798
Endowments received	176	130
Receipt from maturity of endowment fixed interest stock	-	96
Net cash inflow/(outflow)	**11,569**	**(6,439)**

30. Management of liquid resources

(Increase)/decrease in current asset investments	(6,140)	9,500
Increase in endowment cash investments	(123)	(167)
Net cash (outflow)/inflow	**(6,263)**	**9,333**

31. Financing

HEFCE Strategic Development Fund loan	1,827	1,534
SALIX energy efficiency loans	70	616
Repayment of capital element of loans	(618)	(4,215)
Repayment of capital element of finance lease	(467)	(405)
Net cash inflow/(outflow)	**812**	**(2,470)**

32. Analysis of changes in net funds

	At 1 August 2011 £'000	Other changes £'000	Cash flows £'000	At 31 July 2012 £'000
Cash at bank and in hand	4,538	-	949	5,487
Endowment cash asset investments	299	-	123	422
	4,837	-	1,072	5,909
Short term investments	35,500	-	6,140	41,640
Debt due within one year	(610)	(635)	610	(635)
Debt due after one year	(2,774)	635	(1,889)	(4,028)
Finance lease	(5,541)	-	467	(5,074)
	31,412	**-**	**6,400**	**37,812**

The analysis of changes in net debt excludes HEFCE grant holdback of £20m (2011: £30m) as this is not a commercial loan and is being recovered by HEFCE through adjustments to recurrent grant payments. The first of these commenced in 2008-09, with the final adjustment due to be made in 2013-14.

Notes to the financial statements

33. Amounts disbursed as agent - University and Group

	HEFCE Access Fund 2011-12 £'000	TA Training bursary 2011-12 £'000	HEFCE Access Fund 2010-11 £'000	TA Training bursary 2010-11 £'000
Balance unspent at 1 August	23	-	117	-
Income				
Amounts received	547	1,298	581	1,748
Interest earned	2	-	3	-
Expenditure				
Disbursed to students and administration	(538)	(810)	(678)	(1,748)
Balance unspent at 31 July	**34**	**488**	**23**	**-**

The Access Fund is paid to the University by HEFCE to provide assistance to students whose access to further or higher education might be inhibited by financial considerations or who, for whatever reason, including physical or other disability, face financial difficulties.

Teacher Training Bursary Funds are paid to universities by the Teaching Agency (TA) to provide financial support to students studying for a postgraduate qualification which leads to Qualified Teacher Status (QTS).

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

34. Related party transactions

Due to the nature of the University's operations and the composition of the Board of Governors (drawn from the community, businesses and private 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 members of the Board may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

The University has taken advantage of the disclosure exemption under FRS8, which applies to transactions and balances between group entities that have been eliminated on consolidation.

35. Contingent liabilities

The University is in negotiation with a supplier over a claim for work carried out under a service contract. The University's legal advisers have indicated that there are very good grounds to consider that any significant payments on items not provided for in these accounts is unlikely. The amount of contingent liability has therefore been estimated at £2.3m.

36. Post balance sheet events

On 27 September 2012 the Board of Governors approved the transfer of the Women's Library collections and expert staff to the London School of Economics (LSE), subject to the conclusion of a due diligence exercise. The LSE will be the new custodians of the collections from 2013. As part of the agreement with the LSE, the University will transfer the three Women's Library Endowments; Women's Library Trust Fund, Women's History Fellowship Fund and Sadd Brown Library Trust Fund. These funds were valued at £760k as at 31 July 2012. The Library collections are classed as heritage assets and have no capital value attributed to them. See Accounting policies (E) (viii) on page 32.

On 29 November 2012 the Board of Governors approved the delegation of authority to sign Heads of Terms for the sale of the Stapleton House complex.

On 5 December 2012, the University reached agreement with the London School of Business and Finance to end its partnership, while maintaining obligations to students currently on course or in relevant stages of admission.

Transforming lives
Meeting needs
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London Metropolitan University
166–220 Holloway Road
London N7 8DB
United Kingdom

Tel: +44 (0)20 7133 4200

For course and prospectus
information visit:
www.londonmet.ac.uk/create