

Report & Financial Statements 2013



officers of the university

Chancellor

The Rt Hon the Lord Hope of Craighead BA MA LLB KT PC FRSE HonLLD HonDUniv
(until 02/10/13)

The Rt Hon the Lord Smith of Kelvin KT
(from 3/10/13)

Principal and Vice-Chancellor

Professor Sir James McDonald FREng FRSE FIET FInstP

Convener of Court

Richard J A Hunter BA CA

Vice-Principal

Professor Kenneth Miller LLB LLM PhD

Chief Financial Officer

David Coyle MA FCMA

Chief Operating Officer

Hugh Hall MBA CPFA

financial statements for the year to 31 July 2013

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principal's report

The University of Strathclyde was named University of the Year 2012 by the Times Higher Education (THE) magazine exactly a week after I signed off last year's Principal's Report. The award of this title, at a ceremony in London, validated my claim then that "Strathclyde is delivering for its students, its staff and for the wider society in Glasgow, Scotland and globally".

Strathclyde is the only Scottish institution to have received this coveted title and the award came after a visit by judges to verify evidence in support of the nomination. The considered view of our peers included: "The judges were impressed by how the University of Strathclyde's dedication to working with industry took concrete form in the past year, giving a modern slant to its 18th century founder's vision of 'a place of useful learning'."

The judges talked of a "transformational year", citing our commitment to the Technology and Innovation Centre (TIC) and the establishment of the UK's first Fraunhofer Centre and the Fraunhofer UK HQ on our campus as evidence of our ambitions and global reach.

THE editor, John Gill, who saw at first hand the work we are doing here, and who engaged with students, staff and our strategic partners during his visit to Strathclyde, said: "The University of Strathclyde stood out as an institution that had an extraordinary understanding of where it was, where it wanted to be and how it was going to get there."

As someone who has seen the engagement, determination and successes of our staff and students at first hand, I was delighted by the judges' decision and acknowledgements; Strathclyde's strategy and ambition have been transformational. It is encouraging to see our University's confidence reflected through the lens of critical assessment by external people and organisations.

The positive impact on the morale of our students, staff and alumni was palpable, and gave us an enormous lift as we worked on the delivery of our strategy through the 2012/13 academic year. One of the most gratifying things was the pleasure our partners and friends took in our success. As the judges noted, Strathclyde likes to get things done. Nonetheless, we have not let the award go to

our heads – we see it as an encouragement to do even better rather than a reward for past achievement.

Strathclyde's success has been built firmly on its clear vision and focus on delivery. We are affirming our status as a leading international technological university – we believe that this is how we can best make a distinctive contribution to Scottish Higher Education – and all our energies are devoted to developing further our academic quality, impact and reputation.

Our activity revolves around five key themes: renowned research quality and intensity; exemplary knowledge exchange and impact; outstanding teaching and student experience; thriving international profile and reputation; and, operational excellence. It is through delivery and high performance levels in these five areas that we will deliver our ambitions and be judged successful.

One of our core values is a focus on collaboration, and one of the things which sets Strathclyde apart is our unique approach to partnership we have within the HE sector and across other sectors. As can be seen from the work of this past year, this approach yields results. I call it the 'triple helix' – the coming together of academia, the public sector, and industry/business for mutual benefit as well as for the acceleration and enhancement of outcomes linked to national and international priorities.

Everywhere you look in Strathclyde you can see evidence of this – the Technology and Innovation Centre is the result of such a partnership. We have a bold, imaginative and innovative approach to creating wealth and stimulating economic regeneration through partnership. We seek to exploit world-class research and the formation of fantastic graduates. With finance from industry, Scottish Enterprise, the Scottish Funding Council, the European Investment Bank and the University itself, the Technology and Innovation Centre is already redefining what collaboration is about, how to do it better and what it can achieve.

The Power Network Demonstration Centre - our new 'Smart Grid' research and knowledge exchange accelerator - is another example. It is an important contributor to Scotland's global leadership in energy.

The Centre was opened in May by First Minister Alex Salmond who described it as “a truly world-class research centre and the first of its kind in Europe”.

Another example of the triple-helix in action was the announcement that Glasgow was to be home to Britain's first, TSB funded, Future Cities Demonstrator – the ‘City Observatory’. This will be based in TIC and will transform the City Council's ability to make a positive impact on the lives of its citizens, in areas including health, transport, energy and security. Through Strathclyde's new Institute for Future Cities, launched in June by Deputy First Minister Nicola Sturgeon, the University will be able to use knowledge gained there for the benefit of people and communities in urban areas across the globe.

Other key academic achievements during the year have included:

- The establishment of the Strathclyde Institute of Global Public Health: a major initiative to tackle global health problems and drive new evidence-based health policy approaches – this is a collaboration with the International Prevention Research Institute (iPRI) in Lyon, France.
- Our partnership with ‘FutureLearn’ – the UK's premier provider of Massive Open Online Courses (MOOCs) and a new frontier in the delivery of high-quality education programmes to global audiences through the use of advanced technology.
- The opening of our new Intelligent Lighting Centre by the Rt Hon David Willetts, UK Minister of State for Universities and Science – a multidisciplinary approach by our chemistry and photonics groups to revolutionise communications systems by encoding data onto lighting sources.
- The launch of the Centre for White Space Communications by UK Minister for Communications, Ed Vaizey. The Centre builds on more than 30 years of experience in wireless and mobile digital communications and signal processing.

- The launch of the Strathclyde Space Institute providing a platform for increased collaboration with the world's leading space organisations, including NASA, ESA and CALT (the Chinese Academy of Launch Vehicle Technology).

In all of these areas, we are operating at levels of world-class excellence – reinforcing our international reputation, building strong links with global businesses, academic institutions and governments, and ensuring that our students are educated in an environment which is truly international in its outlook.

Our international strategy is building and we now benefit from strengthening existing collaborations and growing new partnerships with leading institutions including Stanford University, New York University, MIT, Nanyang Technological University and Tsinghua University – all indicative of our growing reputation.

At an institutional level, we announced that our Chancellor, Lord Hope of Craighead, would be succeeded by Lord Smith of Kelvin in October 2013. Lord Smith, current chairman of FTSE 100 company SSE – is also chair of the Green Investment Bank and the organising committee for the Glasgow Commonwealth Games 2014. One of Scotland's most respected businessmen, Lord Smith also has significant experience working in the arts, culture and Higher Education sectors.

One of the University's long-term ambitions is to transform our estate. We are fortunate to be based at the centre of one of the UK's most important cities – Glasgow is Scotland's powerhouse, and Strathclyde is its beating heart. Cathedral Street has been transformed by the development of the Strathclyde Institute for Pharmacy and Biological Sciences (SIPBS), and the renovation of the Lord Hope building has provided an exciting new home for our Faculty of Humanities and Social Sciences. Work is well underway for the transformation of our world-leading Business School's accommodation, and the James Weir Building is also undergoing a major refit which will see it established as a state-of-the-art centre for Engineering. The TIC building is well on the way to completion too.

Financially, the University is focused on managing its resources effectively to allow it to invest in its strategic priorities and core activities. We are focused on income generation, recognising that growth will come from earned income rather than public grant. It is worth stating that Strathclyde attracts private sources of income for a large proportion of its funding and we are determined to increase the proportion of our income earned from research, knowledge exchange, recruitment, venturing and other sources.

We are also determined to develop further our high value administrative functions and systems. It is for this reason that operational effectiveness is one of the five pillars of our strategy. Our objectives in this area are: to maximise the effectiveness of staff through training and development; to provide a supportive environment which encourages innovation; and, to secure value for money through investment in new systems and tools.

As our Financial Statements show, in the past year, our income increased by 7.4% to £241.6 million. When coupled to focused expenditure control - which increased by 3.3% to £235.0 million - we were able to generate a surplus of £8.4 million in comparison to a £2.4 million deficit in the previous year. This is a very satisfactory outcome.

This past year has been an exceptionally busy and productive year. It has been a year for celebration, but not a year to rest on our laurels. We will continue to focus on the task in hand - the delivery of our strategic objectives, and securing our position as a leading international technological university.

Professor Sir Jim McDonald
Principal and Vice-Chancellor
21 November 2013

operating and

financial review

Financial summary

	2013 £M	2012 £M
Summary		
Income	241.6	225.0
Expenditure before exceptional items	(235.0)	(224.5)
Surplus before exceptional items	6.6	0.5
Exceptional restructuring costs	-	(3.0)
Gains on disposal of fixed assets	1.7	0.1
Other	0.1	-
Surplus/(deficit) for the year	<u>8.4</u>	<u>(2.4)</u>
Cash and borrowings		
Cash and short term investments	89.2	78.8
Borrowings	(8.6)	(9.9)
	<u>80.6</u>	<u>68.9</u>
Capital expenditure	<u>41.9</u>	<u>43.0</u>

Overview

In addition to the accolade of being named University of the Year at the Times Higher Education Awards 2012, this has been a successful year for the University in financial terms. Income has grown by 7.4% to £241.6 million whilst growth in recurring expenditure has been restricted to 4.7%. This has resulted in an operating surplus for the year of £6.6 million. In addition, an accounting gain (£1.7 million) has arisen in respect of the insurance settlement following the fire in the James Weir building. This is explained further in Note 10. This has resulted in an overall surplus for the year of £8.4 million.

The judging panel for the UK University of the Year award noted that 'The University of Strathclyde stood out as an institution that had an extraordinary understanding of where it was, where it wanted to be and how it was going to get there.' Our commitment to 'useful learning' defines our research, our learning and teaching and our knowledge exchange agendas. In pursuit of these agendas, the University continues to invest significant sums in strategic staff appointments and in physical infrastructure.

After investing some £41.9 million in estate and infrastructure in 2012/13, at the year end the University's net funds totalled £86.0 million.

The University is well placed in terms of financial strength to continue to make investments in pursuit of its strategic goals.

Income

It is particularly pleasing that the income category with the highest growth in 2012/13 was research grant and contract income, which grew by 18.5% and exceeded £50.0 million for the first time. This growth of £7.5 million has arisen across a number of categories, notably Research Council income (£2.3 million), UK Industry and Commerce (£1.1 million), UK Central Government (£3.6 million) and Overseas grants and contracts (£0.9 million) and is evidence of the success of our strategy.

Scottish Funding Council (SFC) grants recognised in the Financial Statements increased by 7.8% to £92.4 million, most notably as a result of the welcome decision by SFC to restore the unit of teaching resource and the number of funded places to 2010/11 levels, following significant reductions in teaching funding in 2011/12.

Tuition fee income increased by £1.9 million (2.7%) to £72.7 million. Especially satisfying has been the growth in home postgraduate taught and postgraduate research fee income and the growth of £0.7 million in research training support grants as a result of expansion of doctoral training centres.

Expenditure

Overall, salary costs increased by £0.6 million (0.5%). Staff leaving during 2012 and 2013 by means of early retirement/voluntary severance resulted in a reduction in salary costs of £2.7 million in 2012/13. This was offset by salary inflation, higher pension costs, an increase in expenditure on research contract staff and investment in strategic staffing appointments.

Other operating expenses increased by 13.5% to £82.7 million, largely attributable to additional research expenditure, other non-salary expenditure in academic departments and higher premises costs.

Investments in infrastructure

As the UK University of the Year, it is right that we have a campus that reflects our ambitions.

The Times Higher Education judges praised Strathclyde as a “bold, imaginative and innovative institution”, a description that encapsulates our 10-year, £350 million investment to transform our estate.

The University has already made significant progress towards this goal. The single campus project, completed in summer 2012, brought together the University community on a single site for the first time with the arrival of Jordanhill staff and students to the heart of the city campus.

The University has made further significant investments in its infrastructure in 2012/13.

Construction of the University’s Technology and Innovation Centre is well underway. The £89 million centre, the University’s biggest single investment in research infrastructure to date, will transform the way universities, business and industry collaborate, helping find solutions to global challenges in fields including energy, health, manufacturing and smart cities. The centre will formally open in 2014 and investment in 2012/13 totalled £9.7 million. Developed with our industrial partners in mind, the centre has already secured support and financial backing from government and Europe, as well as from major partners including SSE, Scottish Power/Iberdrola, the Weir Group, Technip, GSK, AstraZeneca and Novartis. The centre will be the flagship of Scotland’s new International Technology and Renewable Energy Zone and will sit next to Scottish Enterprise’s Industry Engagement (INOVO) Building.

Work is underway to transform the James Weir building into a dynamic learning, teaching, working and research environment. The £35 million project will bring five engineering departments together to facilitate greater collaboration, improve research capabilities and enhance the student experience. The investment will also create an attractive engineering base for industry, building on existing collaborations and bringing new opportunities for inward investment. Following a fire in the building in early 2012, plans for the development of this building were accelerated

with a view to minimising disruption and making significant improvements for students and staff. Investment in this project in 2012/13 totalled £9.2 million.

The University’s Advanced Forming Research Centre (AFRC), a world-class research base for forming and forging techniques, is set to double in size following a multimillion pound investment funded by the Technology Strategy Board and Scottish Enterprise.

Established in 2009, the AFRC is a core partner in the High Value Manufacturing Catapult, the UK’s first Catapult centre.

The AFRC will drive innovation and improved competitiveness across a broad range of industrial sectors including aerospace, renewable energy and automotive. The expansion in the facilities will allow the Centre to procure a new range of test and demonstration equipment designed to address the needs of a broader range of industrial sectors and enable it to lead in a wider range of manufacturing research to address industry needs. Investment in 2012/13 totalled £3.6 million.

Demand for energy is continually increasing and, at the same time, there is an urgent need to broaden the range of energy sources and make their use more efficient. The University’s £8 million Power Networks Demonstration Centre (PNDC), the first of its kind in Europe, has been established to meet these pressing needs. Investment in 2012/13 totalled £2.4 million. The PNDC was officially opened in May 2013 by Alex Salmond, Scotland’s First Minister. This world-class centre will accelerate the development and deployment of research and technology, from innovative energy storage to electric vehicle systems and intelligent household appliances, creating sustainable solutions to global energy challenges. The PNDC is a collaborative venture with Scottish Power and SSE with support from Scottish Enterprise and the Scottish Funding Council.

Net funds and cash flow

At 31 July 2013 net funds totalled £86.0 million (2012 £74.1 million). Some £26.3 million of cash was generated from operations.

Further details on cash flow movements are given in Notes 24 to 30 of the Financial Statements.

Investment performance

The University's investment portfolio includes the investment of endowment funds shown in Note 21 and a general portfolio of investments that are intended to be held for use on a continuing basis in the activities of the University. The investment portfolios are all managed by professional fund managers under discretionary management arrangements. Investment performance is reviewed annually with the fund managers by reference to agreed benchmarks.

The valuations of fixed asset investments and endowment assets increased by £4.1 million during the year following a period of strong performance by equity markets.

Treasury management

The University actively manages its cash balances in accordance with the Treasury Management Code of Practice approved by Court. Credit ratings of approved counterparties and deposit limits are reviewed regularly. Funds are deposited in a variety of Treasury accounts, ranging from overnight to six month deposits.

The University currently has relatively low levels of borrowing. Court considers future borrowing requirements during the annual planning process when rolling three year forecasts are prepared. These reflect the anticipated cash position of the University taking account of anticipated operating performance and planned developments within the Estates Strategy. The University has a £90.0 million banking facility with the European Investment Bank which will assist in funding the Technology and Innovation Centre and in refurbishing a number of key campus locations. At the year end no amounts had been drawn down from this facility.

Outcome Agreements

Outcome Agreements were introduced by the Scottish Government in 2012/13 to assist the University sector in demonstrating and enhancing its contribution to the 'something for something' funding settlement as part of the Government's 2012/15 spending review.

For the University of Strathclyde, the Outcome Agreement process allows us to demonstrate our commitment to securing excellent outcomes for students, society and the economy in partnership with the Scottish Government, its agencies and industry. Our focus on the impact of what we do in the wider economic, social and political world is fundamental to the character of Strathclyde.

The University has a population of some 15,500 students, including 11,500 undergraduate, 1,100 postgraduate research and 3,000 postgraduate taught students. As part of the Outcome Agreement process the University successfully bid for and was awarded an additional 145 undergraduate places and 85 postgraduate places by SFC. This award further supports our aims around widening access, creating articulation partnerships to enable appropriately qualified college students direct access to years two or three of degree programmes, and developing undergraduate and postgraduate skills for growth. The additional 80 articulation places have enabled the University to establish its Engineering Academy, an innovative approach to partnership working with local colleges.

The University is committed to enhancing the international competitiveness of our research by focusing on innovative approaches to connect high quality research to outcomes that have impact in contemporary global society and industry.

financial review continued

During the year the University has:

- formed strategic alliances with Stanford University, Georgia Tech, Tianjin University, New York University and Nanyang Technological University
- been awarded 16 international research grants with a combined value of £3 million, representing an increase of £2 million on the previous year; and been awarded 26 EU Framework 7 grants, an increase of 5 awards compared to 2011/12
- retained its position in the UK top five for Knowledge Transfer Partnership engagement with a portfolio of 23 awards

The Outcome Agreement is a core component in our strategic approach to delivery of outcomes which support Scottish Government objectives and benefit society at large, through a combination of our drive for international excellence and impact, while maintaining our local contribution and value. The University's Outcome Agreement for 2012/13 can be viewed at http://www.strath.ac.uk/media/publications/press_releases/2012/Outcome_Agreement_2012-13_FINAL_Version.pdf

Performance Measurement

In the course of financial year 2012/13, the University has established a Performance Measurement Framework covering a period of five years. This document comprises 22 financial and non-financial long-term targets and Key Performance Indicators (KPIs). These targets and KPIs are baselined against 2011/12 performance and grouped under the following five overarching business areas which form our strategic plan:

- Renowned research quality and intensity
- Exemplary knowledge exchange and impact
- Outstanding teaching and student experience

- Thriving international profile and reputation
- Operational excellence

Overall progress against the measures within this framework indicates good progress against our strategic aims. The framework is available on the Strategy and Policy area of the University website.

Risks and uncertainties

Although the University's general approach is to minimise its exposure to risk, in pursuit of its mission and corporate objectives, it may choose to accept an increased degree of risk. It will do so, subject to always ensuring that the potential benefits and risks are fully understood before developments are authorised, and that robust measures to mitigate risk are established.

A number of risks have been identified that in the view of the Court could materially affect the University, its reputation, revenues, liquidity and capital resources. Significant risks faced by the University relate to:

- Achieving optimum results in the forthcoming Research Excellence Framework, which will have an impact upon both the reputation and finances of the University.
- Retaining, recruiting, motivating and developing the required calibre and number of staff to deliver on our ambitious strategy.
- Ensuring that major physical infrastructure projects, particularly the Technology and Innovation Centre, are delivered on time and within budget.
- Ensuring that Information Technology infrastructure and functionality keeps pace with the changing core business needs of the University.
- Achieving our internationalisation ambitions. This is key to the ongoing development of a competitive, high quality academic portfolio that is attractive to students and other stakeholders.

The nature of risk is such that other risks may arise, or risks not currently considered material may become so in the future. The University has a University-wide risk management process to identify, evaluate and manage risk. Controls and actions are in place to mitigate risks identified. This process is outlined in the Statement of Corporate Governance and Internal Control on pages 10 to 12.

Disability Policy

The University has a policy for promoting opportunities for staff and students with disabilities. This covers recruitment, appraisal and training opportunities, support, awareness training for staff, implementation and monitoring, and a complaints procedure. The University employs a Disability Service Manager and a team of disability advisers who work to improve the access and inclusion of students with disabilities. The University also employs an Equality and Diversity Manager who works to promote the equality of opportunities for staff and students with protected characteristics as defined by the Equality Act 2010.

Equality and Diversity Policy

The Equality and Diversity Policy outlines the University's commitment and approach towards promoting equal opportunities for staff and students with protected characteristics, including disabled people.

The University has an ongoing programme of expenditure to ensure it meets the requirements of the Public Sector Equality Duty and the Equality Act 2010.

Payment of creditors

The University attempts to ensure good relations with suppliers by making payment within 30 days of the invoice date or receipt of goods, whichever is later.

At the year end, the University had trade creditors outstanding of £15.0 million. Given that the University paid a total of £129.2 million to trade creditors during the year, the amount outstanding at the year end represents 42 days (2011/12 51 days). Whilst the figures in both years are higher than normal, this is not due to any delay in making payment to creditors but is attributable to a high level of capital creditors at 31 July in both years. During the year no interest was paid in relation to the Late Payment of Commercial Debts (Interest) Act, 1998.

Looking to the future

Growth in non-governmental income will be a key priority over the coming years and we will build on our success in 2012/13, particularly in respect of research grants and contracts. That will be facilitated by important investments we are making in strategic staffing appointments and physical and IT infrastructure. In particular, the Technology and Innovation Centre, due for completion in 2014, will transform the way academics, business, industry and the public sector collaborate.

The University's financial strength provides an excellent platform from which to make such investments and to reinforce Strathclyde's position as a Leading International Technological University.

J S Perry
Treasurer
21 November 2013

D Coyle
Chief Financial Officer
21 November 2013

governance & internal control

Introduction

The University is committed to exhibiting best practice in all aspects of corporate governance. This summary describes the manner in which the University has complied with and applied the principles set out in the UK Corporate Governance Code issued by the Financial Reporting Council (FRC) in June 2010.

Role of Court and general outline of corporate governance

Under the terms of the University Charter and Statutes, Court is the Governing Body of the University and is responsible for overseeing the management and administration of the whole of the revenue and property of the University as well as academic-related matters, which are primarily devolved to Senate and its attendant committees and structures. Court exercises general control over the University and all its affairs, purposes and functions, taking all final decisions on matters of fundamental concern to the University.

As part of its primary responsibilities, Court is responsible for the University's system of internal control and for reviewing its effectiveness. Such a system is designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

Court has a majority of lay members and includes members of academic staff, non-teaching staff and two student members. The University Court has adopted a Code of Conduct for its members which is set out in the Handbook for Members of Court and maintains a register of interests of members of the Court.

Court has in place a range of financial and non-financial performance measures related to the University's strategic objectives. A detailed schedule of reports is in place to ensure that the main strands of University strategy are reviewed annually and in a consistent manner. In particular, there is an annual strategic meeting which is used to assess organisational performance against strategy.

In 2012/13 Court met five times. Much of its detailed work is initially handled by several committees, including a Staff Committee, a Remuneration Committee, a Court Business Group, a Court Membership Group, an Audit Committee and an Estates Committee. All of these committees are formally constituted, with terms of reference approved by Court, have lay members in their membership, and report formally to Court.

Court Business Group

The Court Business Group considers the business coming forward to Court in order to ensure that Court receives the information it needs to take clear, effective decisions. It also considers strategic financial matters prior to their discussion at Court.

Staff Committee

The Staff Committee is responsible for employment policy, staff development and wellbeing, and partnership working with recognised Trade Unions.

Remuneration Committee

The Remuneration Committee determines the remuneration of the most senior staff, including the Principal, and is chaired by the Convener of Court. The Remuneration Committee's terms of reference are made available on the University's website.

Court Membership Group

The Court Membership Group is chaired by the Convener of Court and considers nominations for co-opted vacancies in Court's membership under Statute 2 of the University's Statutes, and also considers the matter of succession planning in relation to Court membership and in Court's representation on other University committees. A number of lay members are appointed to Court by external bodies.

In 2012/13, the University undertook a recruitment exercise for a new Lay Member of Court. This was conducted by means of open advertisement. This approach is in accordance with the requirements of the Scottish Code of Good HE Governance, with which Scottish institutions will be expected to achieve compliance during academic year 2013/14.

Audit Committee

The Audit Committee plays a key role in assisting Court review the arrangements for internal control and risk management. It meets normally five times a year including an annual Workshop event, with the Internal Auditors in attendance at all meetings and the External Auditors in attendance at two meetings per year. Whilst senior executives attend meetings of the Audit Committee as necessary, they are not members. Committee members meet on their own, with the Internal Auditors and with the External Auditors for independent discussions. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans.

It also receives and considers the Corporate Risk Register and reports from the Funding Council and other bodies as they affect the University's business and monitors adherence to regulatory requirements.

Estates Committee

The Estates Committee is responsible for all major property developments, and reports to Court on the implementation of the capital development programme.

Executive Team

The Executive Team is responsible for providing recommendations on the overall strategic direction of the University, for considering all major initiatives emerging and the resources required to support them, and for proposing these to Senate and Court as appropriate for final approval. It is chaired by the Principal and its membership comprises all the Senior Officers, including Executive Deans. In 2012/13 it met on a fortnightly basis.

Effectiveness Review

Court has previously considered its operating practices and reviewed its own effectiveness. Its practices have been compared to those advocated by the Committee of University Chairmen Guide for Members of Higher Education Governing Bodies in the UK (published in November 2004 and updated in March 2009).

Court is satisfied that the University had a high level of compliance with this Guide in 2012/13 and has adapted its practices to meet the requirements as far as its Statutes so permit.

Court continues to keep its effectiveness under annual review and a formal survey of all Court members was conducted during 2012/13 in order to highlight examples of good practice and identify potential areas for improvement. Subsequent actions to deliver improvements were considered by Court.

Risk Management

The University views Risk Management as integral to the successful execution of its Strategic Plan. There is a process for identifying, evaluating and managing the University's significant risks which complies with the updated Turnbull Committee guidance on internal control. Risk registers are produced at Department/Divisional level and Faculty/Directorate level where they are regularly reviewed and managed by the appropriate individuals/committees with regular reports being made from one level to the next in the structure.

At each stage the risks are evaluated and distilled, leading to the production of the Corporate Risk Register which is reviewed and managed by the Executive Team. The information is also used to inform the strategic planning process. A Risk Group, chaired by the Chief Operating Officer, is responsible for supporting and advising the Executive Team, and through it Court, on the implementation and monitoring of the risk framework. The Corporate Risk Register was presented to Court at its June 2013 meeting, to enable Court to carry out its annual assessment, which also takes into account reports from its various committees and events that have occurred since 31 July 2012. The Audit Committee's role in this area is one of a high level review of the arrangements for internal control. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception.

governance & internal control

continued

Court keeps issues of control and risk under review and receives reports thereon from both the Executive Team and the Audit Committee.

The Audit Committee, on behalf of Court, has reviewed the adequacy and effectiveness of the University's system of internal control and risk management and is satisfied with the University's arrangements in that regard. Any system of internal control can, however, only provide reasonable but not absolute assurance against material misstatement or loss.

Conclusion

Based on the above noted process, Court is of the view that there were adequate and effective internal controls in place and that there was an adequate and effective process for identifying, evaluating and managing the University's significant risks during the year ended 31 July 2013 and up to the date of signing the annual report and accounts.

Court also considers that the University has adequate resources to continue in operational existence for the foreseeable future.

Embracing best practice in corporate governance is intended to ensure stronger alignment with the mission and vision of the University, across all areas. This will also serve to deliver improvements in governance structures, decision-making processes, efficiency of operation and effectiveness in monitoring and control systems.

J S Perry
Treasurer
21 November 2013

statement of primary responsibilities

of the university court

Under the terms of the University Charter and Statutes, Court is the Governing Body of the University. It has adopted a Statement of Primary Responsibilities which is available on the University web site. The Statement of Primary Responsibilities specifies the Court's main responsibilities which cover the areas of staff and students; financial responsibilities; strategic responsibilities; controls; and monitoring performance and effectiveness.

Court is required to present audited Financial Statements for each financial year. It is responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and which enable it to ensure that the Financial Statements are prepared in accordance with the University's Charter, the Statement of Recommended Practice: Accounting for Further and Higher Education and other relevant accounting standards. In addition, within the terms and conditions of a Financial Memorandum agreed between the Scottish Funding Council and Court, Court through its Accounting Officer is required to prepare Financial Statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year. The Principal is the University's Accounting Officer who is responsible for satisfying Court that there is compliance with the conditions of the Financial Memorandum.

With regard to the Financial Statements, Court is required to ensure that:

- suitable accounting policies are selected and applied consistently;
- judgements and estimates that are made are reasonable and prudent;
- applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- the going concern basis is applied unless it is inappropriate to presume that the University will continue in operation.

Court has taken reasonable steps to:

- ensure that funds from the Scottish Funding Council are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- safeguard the assets of the University and hence to take reasonable steps to prevent and detect fraud;
- secure the economic, efficient and effective management of the University's resources and expenditure.

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

- clear definitions of the responsibilities of, and the authority delegated to, heads of academic and professional services departments;
- a comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- regular reviews of academic performance and monthly reviews of financial results involving variance reporting and updates of forecast outturns;
- clearly defined and formalised requirements for approval and control of expenditure, with major investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal;
- comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and Court;
- a suitably qualified Internal Audit team whose annual programme is approved by the Audit Committee.

independent auditors' report to the University Court

of the University of Strathclyde

We have audited the financial statements of the University of Strathclyde for the year ended 31 July 2013 which comprise the Income and Expenditure Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 34. 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 University Court of the University of Strathclyde, as a body, in accordance with the Charter and Statutes of the University; and in accordance with section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and regulation 10 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audit work has been undertaken so that we might state to the University Court 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 University Court of the University of Strathclyde as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University Court and auditor

As explained more fully in the Statement of Primary Responsibilities of Court set out on page 13, the University Court is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditors under the Charter and Statutes of the University and also under section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005 and report in accordance with regulations made under that Act. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the University Court; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Principal's Report, Operating and Financial Review, Statement of Corporate Governance and Internal Control and Court Membership 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 University's affairs as at 31 July 2013 and of the surplus of income over expenditure and the cash flows for the year then ended;
- have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education;
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005 and the Charities Accounts (Scotland) Regulations 2006 (as amended).

independent auditors' report

to the University Court

of the University of Strathclyde continued

Opinion on other matters prescribed by applicable regulations

In our opinion:

- funds from the Scottish Funding Council, grants and income for specific purposes and from other restricted funds administered by the University have, in all material respects, been applied only for the purposes for which they were received; and
- income has, in all material respects, been applied in accordance with the Further and Higher Education (Scotland) Act 1992 and, where appropriate, the Financial Memorandum with the Scottish Funding Council.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Accounts (Scotland) Regulations (as amended) require us to report to you if, in our opinion:

- the information given in the Operating and Financial Review is inconsistent in any material respect with the financial statements; or
- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

Ernst & Young LLP
Statutory Auditor
Glasgow

21 November 2013

Ernst & Young LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006

income and expenditure account

for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Income			
Funding Council grants	2	92,431	85,745
Tuition fees and education contracts	3	72,716	70,782
Research grants and contracts	4	50,411	42,535
Other income	5	24,310	23,228
Endowment and investment income	6	1,733	2,675
Total income		<u>241,601</u>	<u>224,965</u>
Expenditure			
Staff costs	7	132,870	132,247
Exceptional restructuring costs	9	-	3,008
Other operating expenses	9	82,716	72,880
Depreciation	9	18,759	19,204
Interest and other finance costs	8	663	142
Total expenditure	9	<u>235,008</u>	<u>227,481</u>
Operating surplus before exceptional items		6,593	492
Exceptional restructuring costs	10	-	(3,008)
Surplus/(deficit) after depreciation of assets at cost		6,593	(2,516)
Exceptional items	10	1,717	46
Surplus/(deficit) after depreciation of assets at cost and disposal of assets		<u>8,310</u>	<u>(2,470)</u>
Transfer from accumulated income in endowment funds		71	26
Surplus/(deficit) for the year	22	<u>8,381</u>	<u>(2,444)</u>

The income and expenditure of the University relates wholly to continuing operations.

There is no difference between the surplus on a historical cost basis and the surplus for the year presented above.

statement of total recognised

gains and losses

for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Surplus/(deficit) on continuing operations		8,310	(2,470)
Appreciation on revaluation of fixed asset investments	12, 22	1,002	14
Appreciation/(depreciation) of endowment assets	21	3,115	(450)
New endowments	21	69	868
Actuarial gain/(loss) in respect of pension scheme	22	20,140	(23,177)
Total recognised gains/(losses) relating to the year		<u>32,636</u>	<u>(25,215)</u>
Reconciliation			
Opening reserves and endowments		108,057	133,272
Total recognised gains/(losses) for the year		32,636	(25,215)
Closing reserves and endowments		<u>140,693</u>	<u>108,057</u>

balance sheet

as at 31 July 2013

	Note	2013 £000	2012 £000
Fixed assets			
Tangible assets	11	222,467	201,790
Investments	12	9,745	8,224
		<u>232,212</u>	<u>210,014</u>
Endowment assets	13	26,840	23,727
Current assets			
Surplus assets for disposal	14	16,765	16,765
Stock		180	246
Debtors	15	18,876	17,967
Investments	16	30,000	58,000
Cash at bank and in hand		59,222	20,761
		<u>125,043</u>	<u>113,739</u>
Creditors: amounts falling due within one year	17	(77,392)	(68,000)
Net current assets		<u>47,651</u>	<u>45,739</u>
Total assets less current liabilities		<u>306,703</u>	<u>279,480</u>
Creditors: amounts falling due after more than one year	18	(7,220)	(8,600)
Provisions for liabilities	19	(8,721)	(9,055)
Net assets excluding pension liability		<u>290,762</u>	<u>261,825</u>
Net pension liability	31	(16,323)	(35,619)
Net assets including pension liability		<u>274,439</u>	<u>226,206</u>

balance sheet

as at 31 July 2013 continued

	Note	2013 £000	2012 £000
Deferred capital grants	20	133,746	118,149
Endowments			
Expendable	21	1,226	1,378
Permanent	21	25,614	22,349
		<u>26,840</u>	<u>23,727</u>
Reserves			
Income and Expenditure Account excluding pension reserve	22	128,464	118,985
Pension reserve	22	(16,323)	(35,619)
		<u>112,141</u>	<u>83,366</u>
Income and Expenditure Account including pension reserve			
Revaluation reserve	22	1,712	964
		<u>113,853</u>	<u>84,330</u>
Total Funds		<u>274,439</u>	<u>226,206</u>

The Financial Statements were approved by the University Court on 21 November 2013, and signed on its behalf by:

Professor Sir J McDonald
Principal and Vice-Chancellor

J S Perry
Treasurer

D Coyle
Chief Financial Officer

cash flow statement

for the year ended 31 July 2013

	Note	2013 £000	2012 £000
Net cash inflow from operating activities	24	26,325	3,970
Returns on investments and servicing of finance	25	1,616	1,661
Capital expenditure and financial investment	26	(16,082)	(16,140)
Management of liquid resources	27	28,000	7,000
Financing	28	(1,280)	(1,180)
Increase/(decrease) in cash in the year		<u>38,579</u>	<u>(4,689)</u>
Reconciliation of net cash flow to movement in net funds			
Increase/(decrease) in cash in the year		38,579	(4,689)
Change in short term deposits	27	(28,000)	(7,000)
Change in debt	28	1,280	1,180
Change in net funds		<u>11,859</u>	<u>(10,509)</u>
Net funds at 1 August		74,108	84,617
Net funds at 31 July	29	<u>85,967</u>	<u>74,108</u>

1. Principal Accounting Policies

Basis of preparation

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.

The Financial Statements are prepared under the historical cost convention modified by the revaluation of endowment asset investments and certain fixed asset investments.

The Financial Statements of subsidiary undertakings (note 12) have not been consolidated with those of the University on the basis that the amounts involved are not material.

The financial statements do not include those of the Students' Association because the University does not control its activities.

Income recognition

Funding council block grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the Income and Expenditure Account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount, income receivable is shown net of the discount. Bursaries and scholarships are accounted for gross as expenditure and not deducted from income.

Recurrent income from research grants, contracts and other services rendered is included to the extent of the related expenditure incurred during the year, together with any related donations received towards overhead costs. Any payments received in advance of such expenditure are recognised on the balance sheet as liabilities.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are recorded as deferred capital grants. An annual transfer is made to the Income and Expenditure Account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Income from the sale of goods or services is credited to the Income and Expenditure Account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

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 endowment in the Balance Sheet.

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the Statement of Total Recognised Gains and Losses. Any diminution in value is charged to the Income and Expenditure Account, to the extent that it is not covered by a previous revaluation surplus.

1. Principal Accounting Policies continued**Income recognition continued**

Increases or decreases in value arising on the revaluation or disposal of endowment assets is added to or subtracted from the funds concerned and accounted for through the Balance Sheet by debiting or crediting the endowment asset, crediting or debiting the endowment fund and is reported in the Statement of Total Recognised Gains and Losses.

Agency arrangements

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

Value Added Tax (VAT)

Any irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

Accounting for charitable donations***Unrestricted donations***

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 donations will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment funds

Where charitable donations are to be retained for the benefit of the University as specified by the donors, these are accounted for as endowments. There are three main types:

- Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the University.
- Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the University can convert the donated sum into income.
- Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective.

Donation for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the Balance Sheet as a deferred capital grant. The deferred capital grant is released to the Income and Expenditure Account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

1. Principal Accounting Policies continued**Accounting for retirement benefits**

The University participates in the Universities Superannuation Scheme (USS), the Strathclyde Pension Fund (SPF) and the Scottish Teachers Superannuation Scheme (STSS). These are defined benefit schemes which are contracted out of the Second State Pension (S2P).

The assets of USS and STSS are held in separate trustee-administered funds. Because of the mutual nature of the schemes, the schemes' assets are not hypothecated to individual institutions and scheme wide contribution rates are set. The University is, therefore, exposed to actuarial risks associated with other scheme members and is unable to identify its share of the assets and liabilities of the schemes on a consistent and reasonable basis and, therefore, as required by FRS17, the University accounts for these schemes as if they were defined contribution schemes. As a result, the amounts charged to the Income and Expenditure Account represent the contributions payable to the schemes in respect of the accounting period.

The expected cost of providing pension benefits to employees contributing to SPF is recognised in the Income and Expenditure Account on a systematic basis over their expected average lives. Pension scheme assets are measured using market value. Pension scheme liabilities are calculated on an actuarial basis using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is recognised in either the Income and Expenditure Account or the Statement of Total Recognised Gains and Losses.

Foreign currencies

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the date of the transactions. Assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the financial year, with all the resulting exchange differences being taken to the Income and Expenditure Account in the year in which they arise.

Land and buildings

Land and buildings are stated at cost less depreciation and, where appropriate, any provisions for estimated losses on disposal.

Land which is held freehold is not depreciated as it is considered to have an indefinite useful life. Freehold buildings are depreciated over their expected useful lives of up to 50 years. Leasehold land and buildings are amortised over the life of the lease up to a maximum of 50 years. Alterations and additions to buildings are depreciated over the expected useful life of the work carried out.

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

Buildings under construction are accounted for at cost, based on the value of architects' certificates and other direct costs incurred to 31 July. The buildings are not depreciated until they are brought into use.

Buildings which are acquired with the aid of specific grants are recognised and depreciated as above. The related grants are treated as deferred capital grants and released to the Income and Expenditure Account over the expected useful lives of the buildings.

1. Principal Accounting Policies continued**Land and buildings** continued

Costs incurred in relation to a tangible fixed asset, after its initial purchase or production, are capitalised to the extent that they increase the expected future benefits to the University from the existing tangible fixed asset beyond its previously assessed standard of performance. The cost of any such enhancement is added to the gross carrying amount of the tangible fixed asset concerned.

Equipment

Equipment, including personal computers and software, costing less than £10,000 per individual item or group of related items, is written off in the year of acquisition. All other equipment is capitalised. Capitalised equipment is stated at cost and depreciated over its expected useful economic life, as follows:

General equipment	-	5 years
Equipment acquired for specific research projects	-	2 years

Where equipment is acquired with the aid of specific grants it is recognised and depreciated as above. The related grant is treated as a deferred capital grant and released to income over the expected useful life of the equipment.

Where equipment is part of a capital project, it may be depreciated over periods of between five and ten years.

Heritage assets

Works of art and items of historical interest are not recognised, since reliable cost information is not available for items acquired many years ago and significant costs are involved in arriving at valuations.

Surplus assets for disposal

Surplus assets for disposal are land and buildings which are no longer in use by the University and which the University is committed to sell and not replace. These assets are valued at the lower of carrying amount and net realisable value.

Repairs and maintenance

Expenditure to ensure that a tangible fixed asset maintains its previously assessed 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.

Investments

Fixed Asset Investments are included in the Balance Sheet at market value except for investments in spin-out companies which are held at the lower of cost and net realisable value.

Endowment Assets are those investments held for endowment funds where the income and/or capital of the funds require to be used for restricted or unrestricted purposes of the University as determined by the terms of the endowment. Endowment Asset Investments are included in the Balance Sheet at market value.

Current Asset Investments are shown at the lower of cost and net realisable value.

1. Principal Accounting Policies continued**Stock**

Stocks for maintenance, catering, and central stationery are valued at the lower of cost and net realisable value. Departmental stocks are charged to the Income and Expenditure Account in the year of purchase.

Provisions, contingent liabilities and contingent assets

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. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; an inability to measure the economic outflow.

Contingent assets are disclosed by way of a note, where there is a possible, rather than present asset arising from a past event.

Cash flows and liquid resources

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

Liquid resources comprise 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.

2. Funding Council grants

	2013	2012
	£000	£000
SFC Higher Education recurrent teaching grant	61,088	53,684
SFC recurrent research grant	19,687	19,186
SFC non-recurrent research grant	2,759	3,722
SEED Funding for Initial Teacher Education	676	446
Released from deferred capital grants	5,747	5,763
Other SFC grants	2,474	2,944
	<u>92,431</u>	<u>85,745</u>

financial statements

continued

3. Tuition fees and education contracts	Note	2013	2012
		£000	£000
Scotland and EU fees		30,213	28,813
Rest of UK fees (old rates)		402	988
Rest of UK fees (new rates)		276	-
Non EU fees		27,005	27,566
Non credit bearing course fees		7,575	6,753
Education contracts		2,095	2,264
Other contracts		5,150	4,398
		<u>72,716</u>	<u>70,782</u>
 4. Research grants and contracts			
Research Councils		19,110	16,844
UK based charities		4,276	4,214
European Commission		5,900	5,934
Other grants and contracts		18,034	13,163
Released from deferred capital grants		3,091	2,380
		<u>50,411</u>	<u>42,535</u>
 5. Other income			
Residences and catering		9,661	9,531
Other services rendered		6,695	6,775
Released from deferred capital grants		1,258	1,215
Royalty income		364	474
Accommodation charges and rental income		201	181
Other departmental income		2,848	2,607
Donations and subventions		1,072	554
Other		2,211	1,891
		<u>24,310</u>	<u>23,228</u>
 6. Endowment and investment income			
Income from expendable endowments		8	8
Income from permanent endowments		726	708
Interest receivable		721	925
Investment income		278	244
Net return on pension scheme	31	-	790
		<u>1,733</u>	<u>2,675</u>

7. Staff costs

	2013 £000	2012 £000
Wages and salaries	107,573	107,605
Social security costs	9,134	9,082
Other pension costs (Note 31)	16,163	15,560
	<u>132,870</u>	<u>132,247</u>
 Average staff numbers by major category:		
	2013 Number	2012 Number
Academic	831	863
Professional Services	1,128	1,099
Research	449	453
Operational	638	688
	<u>3,046</u>	<u>3,103</u>
	2013 £000	2012 £000
Total remuneration of the Principal and Vice-Chancellor including pension contributions was	<u>303</u>	<u>290</u>

Included within the remuneration figures are amounts in respect of benefits-in-kind. The University's contributions to the Universities Superannuation Scheme in respect of the Principal's pension are paid at the same rates as for other staff. During the year to 31 July 2013, the Principal ceased to pay contributions into the Universities Superannuation Scheme and the University's contributions to the pension scheme were paid to the Principal as salary on an equivalent basis. Total remuneration included pension contributions of £20,000 (2012 £40,000).

financial statements

continued

7. Staff costs continued

The number of staff, including senior postholders other than the Principal, who received emoluments, excluding employer's pension contributions, in the following ranges was:

	2013			2012		
	Senior	Other	Total	Senior	Other	Total
£70,001 - £80,000	-	62	62	-	71	71
£80,001 - £90,000	-	38	38	-	38	38
£90,001 - £100,000	-	20	20	-	21	21
£100,001 - £110,000	-	9	9	-	9	9
£110,001 - £120,000	-	5	5	-	2	2
£120,001 - £130,000	1	4	5	1	3	4
£130,001 - £140,000	-	-	-	1	2	3
£140,001 - £150,000	-	2	2	-	-	-
£150,001 - £160,000	1	1	2	1	1	2
£160,001 - £170,000	1	-	1	-	1	1

The figures shown in the table above include fees earned in respect of work performed for external bodies.

Payments in respect of compensation for loss of office are provided in the Financial Statements in the year of termination of office. Aggregate compensation for loss of office of staff whose earnings are more than £70,000 per annum or where the costs of all elements of a proposed arrangement amount to more than £100,000 comprised:

	Note	2013 £000	2012 £000
Pension benefits		-	439
Compensation paid		-	383
		<u>-</u>	<u>822</u>

8. Interest and other finance costs

Loans not wholly repayable within five years		209	142
Net charge on pension scheme	31	454	-
		<u>663</u>	<u>142</u>

9. Analysis of expenditure by activity

	Staff costs £000	Other operating expenses £000	Interest and other finance costs £000	2013 total £000	2012 total £000
Academic departments	73,438	22,228	-	95,666	92,410
Academic services	10,407	5,960	-	16,367	15,370
Research grants and contracts	17,628	16,104	-	33,732	29,990
Administration and central services	14,842	7,335	-	22,177	21,095
Residences and catering	2,727	3,240	-	5,967	6,336
Premises	8,014	16,934	-	24,948	24,199
Other expenses	5,814	10,915	663	17,392	15,869
	<u>132,870</u>	<u>82,716</u>	<u>663</u>	216,249	205,269

Exceptional restructuring costs				-	3,008
Depreciation				18,759	19,204

Total per income and expenditure account 235,008 227,481

Exceptional restructuring costs of £Nil (2012 £3,008,000) were incurred as a result of the Voluntary Early Release scheme introduced to reduce recurrent employment costs.

The depreciation charge has been funded by:

Deferred capital grants released	10,096	9,358
General income	8,663	9,846
	<u>18,759</u>	<u>19,204</u>

Other operating expenses include:

External auditors remuneration - audit services	60	57
External auditors remuneration - non-audit services	7	4

10. Exceptional items

	2013 £000	2012 £000
Gain on disposal of fixed assets	1,717	-
Gain on disposal of fixed asset investments	-	46
Gain on disposal	<u>1,717</u>	<u>46</u>
Restructuring costs	<u>-</u>	<u>(3,008)</u>

financial statements continued

10. Exceptional items continued

On 7 February 2012, the University experienced a fire in its James Weir Building. The fire resulted in significant smoke, water and other interior damage to the teaching and research facilities and equipment within the building.

The University has insurance cover for its buildings, contents and the higher costs of continuing business in the aftermath of such an event. In August 2013, the University reached a negotiated settlement of the entire claim resulting in a cumulative total receipt of £15.6 million for cash including contents, increased costs of working, emergency works and building reinstatement.

An element of the claim was in respect of asset replacement. A net accounting gain of £1,717,000 has arisen as the assets replaced have a replacement cost (£4,210,000) which exceeds the book value of the damaged assets that were derecognised (£2,493,000).

11. Tangible fixed assets

	Land and Buildings				Total £000
	Freehold £000	Long leasehold £000	Assets under construction £000	Equipment £000	
Cost					
At 1 August 2012	274,201	9,838	13,637	43,024	340,700
Additions	17,936	323	14,955	8,715	41,929
Transfers	9,562	-	(9,562)	-	-
Disposals	(4,928)	-	-	(4,974)	(9,902)
At 31 July 2013	<u>296,771</u>	<u>10,161</u>	<u>19,030</u>	<u>46,765</u>	<u>372,727</u>
Depreciation					
At 1 August 2012	108,305	7,930	1,963	20,712	138,910
Charge for year	11,382	391	-	6,986	18,759
Disposals	(2,610)	-	-	(4,799)	(7,409)
Transfers	1,963	-	(1,963)	-	-
At 31 July 2013	<u>119,040</u>	<u>8,321</u>	<u>-</u>	<u>22,899</u>	<u>150,260</u>
Net book value at 31 July 2013	<u>177,731</u>	<u>1,840</u>	<u>19,030</u>	<u>23,866</u>	<u>222,467</u>
Net book value at 31 July 2012	<u>165,896</u>	<u>1,908</u>	<u>11,674</u>	<u>22,312</u>	<u>201,790</u>

11. Tangible fixed assets continued

Buildings with a net book value of £170,837,000 and cost of £278,204,000 have been funded in part or in whole from Treasury sources. Should these particular buildings be sold, the University would have to surrender the relevant proceeds to the Treasury or use them in accordance with the Financial Memorandum with the Scottish Funding Council.

Heritage assets are not recognised in the Financial Statements. The University's heritage assets comprise over 1,000 works of art, around 400 historical scientific instruments, some 35 special collections of rare printed and manuscript materials, historical archives (including the University's own archives and some 30 other archive collections), and silverware and other ceremonial items. The age of the items range from the 15th century to the present day.

The artwork collection is mainly displayed in University buildings across the campuses, while the historical scientific instrument collection is available for viewing by appointment. The book/manuscript collections and archives are used for consultation purposes. The ceremonial assets are used for occasions such as graduations. No material acquisitions occurred in the period, and there were no disposals.

12. Fixed asset investments

	2013	2012
	£000	£000
At 1 August	8,224	8,261
Additions	2,117	1,855
Disposals	(1,488)	(1,888)
Increase in market value of investments	1,002	14
Decrease in cash balances	(110)	(18)
At 31 July	<u>9,745</u>	<u>8,224</u>
Represented by:		
Fixed interest investments (listed)	1,775	1,837
Equities (listed)	6,962	5,514
Cash at bank	386	496
Spin-out company investments	570	325
Other	52	52
	<u>9,745</u>	<u>8,224</u>

Investments are stated at market value apart from investments in projects emanating from the University's research activities and which are considered to merit commercial development (spin-out company investments). Such investments are stated at the lower of cost and net realisable value.

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12. Fixed asset investments continued

The University's subsidiary undertakings are:

	%		
	Holding	Main Activity	Year End
Strathclyde University Incubator Limited	100	Incubator for technology based business	31/7/13
University of Strathclyde Properties Limited	100	Dormant	31/7/13
Haleno Limited	100	Dormant	31/7/13
SGBS Limited	100	Dormant	31/7/13

The financial statements of these subsidiary undertakings have not been consolidated with those of the University on the basis that the amounts involved are not material.

13. Endowment assets

	2013 £000	2012 £000
At 1 August	23,727	23,335
Additions	8,215	7,599
Disposals	(8,445)	(6,818)
Increase/(decrease) in market value of investments	3,115	(450)
Increase in cash balances held for endowment funds	228	61
At 31 July	<u>26,840</u>	<u>23,727</u>
Represented by:		
Fixed interest investments (listed)	3,846	4,318
Equities (listed)	17,805	14,481
Bank deposits	230	197
Cash at bank held for endowment funds	4,959	4,731
Total endowment assets	<u>26,840</u>	<u>23,727</u>
Fixed interest investments and equities at cost	<u>16,790</u>	<u>15,839</u>

14. Surplus assets for disposal

Surplus assets for disposal include land and buildings at Jordanhill and land at Kilmardinny. During the year, planning permission in principle was obtained for the erection of a residential development at Jordanhill.

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15. Debtors

	2013	2012
	£000	£000
Debtors	14,028	14,243
Prepayments and accrued income	4,848	3,724
	<u>18,876</u>	<u>17,967</u>

16. Current asset investments

	2013	2012
	£000	£000
Deposits maturing: in one year or less	<u>30,000</u>	<u>58,000</u>

Deposits are held with banks operating in the London market and licensed by the Financial Services Authority. These deposits have more than 24 hours maturity at the balance sheet date.

At 31 July 2013 the weighted average interest rate of these fixed deposits was 0.57% per annum and the remaining weighted average period for which the interest rate is fixed on these deposits was 60 days. The fair value of these deposits was not materially different from the book value.

17. Creditors: amounts falling due within one year

	2013	2012
	£000	£000
Unsecured loans	1,380	1,280
Creditors	17,869	15,798
Social security and other taxation payable	2,887	2,887
Accruals	11,620	14,815
Deferred income	43,636	33,220
	<u>77,392</u>	<u>68,000</u>

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18. Creditors: amounts falling due after more than one year

	2013 £000	2012 £000
Analysis of unsecured loans:		
Due within one year or on demand	1,380	1,280
Due between one and two years	1,480	1,380
Due between two and five years	5,140	4,800
Due in five years or more	600	2,420
	<u>8,600</u>	<u>9,880</u>
Due within one year or on demand	(1,380)	(1,280)
Due after more than one year	<u>7,220</u>	<u>8,600</u>

The unsecured bank loan of £8,000,000 (2012 £9,280,000) is repayable by instalments between 1 August 2013 and 31 July 2018 and interest is charged at 0.5% above the Base Rate. The University also has interest free loans totalling £600,000 (2012 £600,000) from Salix Finance Ltd which are partially repayable in five years or more. The dates and quantum of repayments are wholly dependent upon the timing of expenditure and savings related to various energy efficiency and renewable energy projects funded by these loans, which require matched funding by the University.

19. Provisions for liabilities

	2013 £000	2012 £000
Pensions		
At 1 August	9,055	8,362
Expenditure in the year	(917)	(1,326)
Transfer from Income and Expenditure Account	151	839
Revaluation adjustment	432	1,180
At 31 July	<u>8,721</u>	<u>9,055</u>

The University has an obligation in respect of former employees who have retired and for whom an enhanced pension has been provided. Some £7,413,000 (2012 £7,160,000) of this liability continues throughout the retirement period and is assessed by independent actuarial valuation. The principal assumptions are a discount rate of 4.0% (2012 3.8%) and pension increases of 2.5% (2012 2.0%). The balance of £1,308,000 (2012 £1,895,000) relates to the estimated cost of enhanced benefits and strain costs which will be settled via future payments to the Universities Superannuation Scheme and the Scottish Teachers' Superannuation Scheme.

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20. Deferred capital grants

	Funding Council £000	Other grants and benefactions £000	Total £000
At 1 August			
Buildings	67,560	33,263	100,823
Equipment	7,698	9,628	17,326
Total	<u>75,258</u>	<u>42,891</u>	<u>118,149</u>
Cash Receivable			
Buildings	10,775	10,055	20,830
Equipment	-	4,863	4,863
Total	<u>10,775</u>	<u>14,918</u>	<u>25,693</u>
Released to income and expenditure			
Buildings	4,134	1,544	5,678
Equipment	1,613	2,805	4,418
Total	<u>5,747</u>	<u>4,349</u>	<u>10,096</u>
At 31 July			
Buildings	74,201	41,774	115,975
Equipment	6,085	11,686	17,771
Total	<u>80,286</u>	<u>53,460</u>	<u>133,746</u>

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21. Endowments

	Unrestricted Permanent £000	Restricted Permanent £000	Total Permanent £000	Restricted Expendable £000	2013 Total £000	2012 Total £000
At 1 August						
Capital	3,363	16,650	20,013	-	20,013	19,587
Accumulated income	-	2,336	2,336	1,378	3,714	3,748
	<u>3,363</u>	<u>18,986</u>	<u>22,349</u>	<u>1,378</u>	<u>23,727</u>	<u>23,335</u>
New Endowments	7	62	69	-	69	868
Investment Income	124	602	726	8	734	716
Expenditure	(124)	(488)	(612)	(193)	(805)	(742)
	<u>-</u>	<u>114</u>	<u>114</u>	<u>(185)</u>	<u>(71)</u>	<u>(26)</u>
Increase in market value of investments	596	2,486	3,082	33	3,115	(450)
At 31 July	<u>3,966</u>	<u>21,648</u>	<u>25,614</u>	<u>1,226</u>	<u>26,840</u>	<u>23,727</u>
Represented by:						
Capital	3,966	19,198	23,164	-	23,164	20,013
Accumulated income	-	2,450	2,450	1,226	3,676	3,714
	<u>3,966</u>	<u>21,648</u>	<u>25,614</u>	<u>1,226</u>	<u>26,840</u>	<u>23,727</u>

Major Endowments:

Restricted Permanent endowments include four major individual funds:

T B Hunter Charitable Trust – Endowed to support the ongoing development of entrepreneurship education.

Sir David S Anderson Trust – Bequest to be used in the field of Science and Engineering by inviting distinguished persons from institutions in Europe or America to visit the University to take an active part in teaching and/or research or to send University staff abroad to acquire knowledge which might not be available in this country.

Glaxo – Endowed to provide monies to establish two “Jack Research Fellowships” for advance study in any field of science related to the discovery of new drugs.

Robertson Trust – Endowed to provide for a Chair of Bioprocessing Technology.

21. Endowments continued

The movement of these funds for the year were as follows:

	T B Hunter Charitable Trust £000	Sir David S Anderson Trust £000	Glaxo £000	Robertson Trust £000
At 1 August 2012	4,709	1,212	1,736	1,232
Investment income	217	33	63	42
Expenditure	(207)	(6)	(63)	(42)
Increase in market value of investments	174	49	245	185
At 31 July 2013	<u>4,893</u>	<u>1,288</u>	<u>1,981</u>	<u>1,417</u>

22. Reserves

	Income and Expenditure Account £000	Revaluation Reserve £000	Pension Reserve £000	Total £000
At 1 August 2012	118,985	964	(35,619)	84,330
Surplus for the year	8,381	-	-	8,381
Revaluation of fixed asset investments	-	1,002	-	1,002
Realised revaluation gain on sale of investments	254	(254)	-	-
Actuarial gain	-	-	20,140	20,140
Deficit retained within reserves	844	-	(844)	-
At 31 July 2013	<u>128,464</u>	<u>1,712</u>	<u>(16,323)</u>	<u>113,853</u>

23. Capital commitments

	2013 £000	2012 £000
Commitments contracted at 31 July	<u>70,470</u>	<u>59,140</u>

Of the above commitments, £18,112,000 (2012 £22,443,000) will be funded from external sources.

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24. Reconciliation of operating surplus to net cash flow from operating activities

	2013 £000	2012 £000
Surplus/(deficit) after depreciation of assets at cost	8,310	(2,470)
Depreciation of tangible fixed assets	18,759	19,204
Deferred capital grants released to income	(10,096)	(9,358)
Investment income	(1,733)	(2,675)
Gain on disposal of fixed asset investments	-	(46)
(Gain)/loss on sale of investments	(69)	144
Gain on disposal of tangible fixed assets	(1,717)	-
Interest payable	663	142
Decrease in stocks	66	12
Increase in debtors	(446)	(4,808)
Increase in creditors	12,532	3,519
(Decrease)/increase in provisions	(334)	693
Pension costs less contributions payable	390	(387)
Net cash inflow from operating activities	<u>26,325</u>	<u>3,970</u>

25. Returns on investments and servicing of finance

Income from endowments	734	716
Interest received and investment income	1,111	1,077
Interest paid	(229)	(132)
Net cash inflow from returns on investments and servicing of finance	<u>1,616</u>	<u>1,661</u>

26. Capital expenditure and financial investment

Payments to acquire tangible fixed assets	(45,149)	(37,703)
Deferred capital grants received	25,118	21,541
Endowment assets acquired and received	(8,146)	(6,731)
Receipts from sale of endowment assets	8,445	6,818
Purchase of fixed asset investments	(2,117)	(1,855)
Receipts from sale of fixed asset investments	1,557	1,790
Receipts from sale of tangible fixed assets	4,210	-
Net cash outflow for capital expenditure and financial investment	<u>(16,082)</u>	<u>(16,140)</u>

27. Management of liquid resources

Decrease in short term deposits	<u>28,000</u>	<u>7,000</u>
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28. Financing

Repayments of unsecured loans	<u>(1,280)</u>	<u>(1,180)</u>
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29. Analysis of changes in net funds

	At 1 August 2012 £000	Cash flow £000	Non-cash changes £000	At 31 July 2013 £000
Investments	496	(110)	-	386
Endowment assets	4,731	228	-	4,959
Cash in hand and in bank	20,761	38,461	-	59,222
	<u>25,988</u>	<u>38,579</u>	<u>-</u>	<u>64,567</u>
Short-term investments	58,000	(28,000)	-	30,000
Debts due within one year	(1,280)	1,280	(1,380)	(1,380)
Debts due after one year	(8,600)	-	1,380	(7,220)
	<u>74,108</u>	<u>11,859</u>	<u>-</u>	<u>85,967</u>

30. Cash flows relating to exceptional items

Operating cash flows include an outflow of £1,219,000 (2012 £2,742,000) in respect of exceptional restructuring costs.

31. Pension schemes

The University participates in three defined benefit schemes, the Universities Superannuation Scheme (USS), the Strathclyde Pension Fund (SPF) and the Scottish Teachers Superannuation Scheme (STSS).

	2013 £000	2012 £000
The total pension costs for the year were:		
USS	12,934	12,681
SPF	3,143	2,777
STSS	86	102
	<u>16,163</u>	<u>15,560</u>

With the exception of the Strathclyde Pension Fund, the University has, as permitted by FRS 17, accounted for these schemes as though they were defined contribution schemes and the costs recognised within the University's Income and Expenditure Account is equal to the contributions payable to the schemes in the year.

	2013 £000	2012 £000
Outstanding contributions at 31 July were:		
USS	1,727	1,552
SPF	246	252
STSS	12	12
	<u>1,985</u>	<u>1,816</u>

31. Pension Schemes continued***Universities Superannuation Scheme***

The University participates in the Universities Superannuation Scheme (USS), a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited.

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 2013 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 (i.e. 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.

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% per annum thereafter.

Standard mortality tables were used as follows:

Male members' mortality S1NA ["light"] YoB tables – No age rating

Female members' mortality S1NA ["light"] YoB tables – Rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience but also provides an element of conservatism to allow for further improvements in mortality rates. The CMI 2009 projections with a 1.25% per annum long term rate were also adopted. 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.

31. Pension Schemes continued

The actuary also valued the scheme on a number of other bases as at the valuation date. On the scheme's historic gilts basis using a valuation rate of interest in respect of part 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 (i.e. assuming the scheme had discontinued on the valuation date) the assets would have been approximately 57% of 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 this valuation, the trustee has determined after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial valuation is as at 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 valuation effective date 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 age 65.
- *Flexible Retirement*
Flexible retirement options were introduced.

31. Pension Schemes continued

- 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 would 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%.

The actuary has estimated that the funding level as at 31 March 2013 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 cited as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS17 basis, using an AA bond discount rate of 4.2% per annum based on spot yields, the actuary calculated that the funding level at 31 March 2013 was 68%. An estimate of the funding level measured on a historic gilts basis at that date was approximately 55%.

Surpluses or deficits which arise at future valuations may impact on the institution'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. The sensitivities regarding the principal assumptions used to measure the scheme liabilities on a technical provisions basis as at the date of the last triennial actuarial valuation are set out below:

Assumption	Change in assumption	Impact on shortfall
Investment return	Decrease by 0.25%	Increase by £1.6 billion
The gap between RPI and CPI	Decrease by 0.25%	Increase by £1 billion
Rate of salary growth	Increase by 0.25%	Increase by £0.6 billion
Members live longer than assumed	1 year longer	Increase by £0.8 billion
Equity markets in isolation	Fall by 25%	Increase by £4.6 billion

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.

31. Pension Schemes continued

The trustee believes that over the long-term equity investment and investment in selected alternative asset classes will provide superior returns to other investment classes. The management structure and targets set by the trustee are designed to give the fund a significant exposure to equities through portfolios that are diversified both geographically and by sector. The trustee recognises that putting the issue of USS fund's size and scale to one side for a moment, it might be theoretically possible to select investments producing income flows broadly similar to the estimated liability cash flows. However, in order to meet the long-term funding objective within a level of contributions that it considers the employers would be willing and able to make, the trustee needs to take on a degree of investment risk relative to the liabilities. This taking of investment risk seeks to target a greater return than the matching assets would provide whilst maintaining a prudent approach to meeting the fund's liabilities. Before deciding what degree of investment risk to take relative to the liabilities, the trustee receives advice from its internal investment team, its investment consultant and the scheme actuary, and importantly considers the ability of the sponsoring employers to support the scheme if the investment strategy does not deliver the expected returns.

The positive cash flow of the scheme means that it is not necessary to realise investments to meet liabilities, and the scheme actuary has confirmed that this is likely to remain the position for the next ten years or more. The trustee believes that this, together with the ongoing flow of new entrants into the scheme and most critically the ability of the employers to provide additional support to the scheme should additional contributions be required, enables it to take a longer term view of its investments. Some short term volatility in returns can be tolerated and need not feed through immediately to the contribution rate. However, the trustee is mindful of the difficult economic climate which exists for defined benefit pension schemes currently, and the need to be clear about the responses that are available should the deficits persist and a revised recovery plan becomes necessary following the next actuarial valuation of the scheme as at March 2014. The trustee is making preparations ahead of the next valuation to compile a formal financial management plan, which will bring together – in an integrated form – the various funding strands of covenant strength, investment strategy and funding assumptions, in line with the latest guidance from the Pensions Regulator.

At 31 March 2013, USS had over 148,000 active members and the institution had 2,300 active members participating in the scheme.

The contribution rate payable by the institution is 16% of pensionable salaries.

Strathclyde Pension Fund

The Strathclyde Pension Fund provides benefits based on final pensionable salary for employees of local government and some other institutions. The University believes that sufficiently robust information is now available to enable each institution's share of the underlying assets and liabilities of the scheme to be identified on a consistent and reasonable basis and contributions to the scheme are accounted for as if it were a defined benefit scheme.

SPF is an externally funded, multi-employer, defined benefits scheme which is contracted out of the State Second Provision (S2P) Scheme. The last full valuation was carried out at 31 March 2011 by a qualified independent actuary. The FRS17 results below are based on rolling forward the previous valuation results to 31 July 2013.

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31. Pension Schemes continued

The major assumptions used by the actuary at the beginning and end of the financial year were as follows:

	2013	2012
Rate of increase of salaries (see note a)	5.1% *	4.5% **
Rate of increase in pensions in payment (see note b)	2.8%	2.2%
Discount rate	4.6%	4.1%
Expected return on assets	5.8%	4.9%

(a) * The salary increase assumption is 1.0% for the year to July 2014, 1.99% for the year to July 2015, 1.8% for the year to July 2016 and 5.1% thereafter.

** The salary increase assumption is 1% for the year to July 2013, 2.5% for the 2 years to July 2015 and 4.5% thereafter.

(b) The rate of increase in pensions at 31 July 2013 is based on CPI.

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

	At 31 July 2013	At 31 July 2012
Current Pensioners		
Males	21.0 years	21.0 years
Females	23.4 years	23.4 years
Future Pensioners		
Males	23.3 years	23.3 years
Females	25.3 years	25.3 years

The fair value of the University's share of the assets and liabilities in the scheme were measured in accordance with the requirements of FRS17 and the expected rates of return were as follows:

	31 July 2013		31 July 2012		31 July 2011	
	Long term rate of return	Value £000	Long term rate of return	Value £000	Long term rate of return	Value £000
Equities	6.4%	114,280	5.5%	93,487	7.0%	104,496
Bonds	3.8%	21,052	3.3%	16,648	4.7%	17,874
Property	4.6%	10,526	3.7%	10,245	5.1%	8,250
Cash	3.4%	4,511	2.8%	7,684	4.0%	6,875
Total market value of assets		<u>150,369</u>		<u>128,064</u>		<u>137,495</u>
Present value of scheme liabilities						
- Funded		(163,961)		(161,004)		(149,087)
- Unfunded		(2,731)		(2,679)		(2,027)
Deficit in the scheme		<u>(16,323)</u>		<u>(35,619)</u>		<u>(13,619)</u>

31. Pension Schemes continued

Movements in fair value of plan assets	2013	2012
	£000	£000
At 1 August	128,064	137,495
Expected return on plan assets	6,215	8,743
Actuarial gains/(losses)	18,560	(16,403)
Contributions by the employer	2,566	2,987
Contributions in respect of unfunded benefits	187	177
Contributions by members	671	723
Unfunded benefits paid	(187)	(177)
Benefits paid	(5,707)	(5,481)
At 31 July	<u>150,369</u>	<u>128,064</u>
Movements in present value of defined benefit obligations		
At 1 August	163,683	151,114
Current service cost	2,826	2,586
Loss on curtailments	317	191
Interest cost	6,669	7,953
Actuarial (gains)/losses	(1,580)	6,774
Contributions by members	671	723
Estimated unfunded benefits paid	(187)	(177)
Benefits paid	(5,707)	(5,481)
At 31 July	<u>166,692</u>	<u>163,683</u>
Analysis of the amount charged to staff costs within operating deficit		
Current service cost	2,826	2,586
Loss on curtailments	317	191
Total operating charge	<u>3,143</u>	<u>2,777</u>
Analysis of the amount (charged) to interest payable/credited to other finance income		
Expected return pension scheme assets	6,215	8,743
Interest cost	(6,669)	(7,953)
Total net finance (charge)/return	<u>(454)</u>	<u>790</u>

financial statements

continued

31. Pension Schemes continued

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL):	2013 £000	2012 £000
Actual return less expected return on scheme assets	18,560	(16,403)
Experience gains/(losses) on liabilities	1,580	(6,774)
Total gain/(loss) recognised via STRGL during year	<u>20,140</u>	<u>(23,177)</u>
 History of experience gains and losses	 2013 £000/%	 2012 £000/%
Difference between the expected and actual returns on assets	18,560	(16,403)
Percentage of scheme assets	12.3%	(12.8%)
Experience gains/(losses) on scheme liabilities	1,580	(6,774)
Percentage of scheme liabilities	0.9%	(4.1%)
Total amount recognised in STRGL	20,140	(23,177)
Percentage of scheme liabilities	12.0%	(14.2%)

The contribution rate payable by the University was 21.3% (2012 21.1% until 31 March 2012 and 21.3% thereafter) of pensionable salary.

Scottish Teachers Superannuation Scheme

The Scottish Teachers Superannuation Scheme (STSS) provides benefits based on final pensionable salary for Scottish teachers. The fund is administered by the Scottish Public Pensions Agency.

The level of contribution paid by employing institutions is 14.9% (2012 14.9%) of members' salaries.

32. Taxation status

The University has charitable status and is recorded on the index of charities maintained by the Office of the Scottish Charity Regulator (Charity No. SC015263). The University is an exempt charity within the meaning of Part 1, Chapter 2, Section 7 of the Charities and Trustee Investment (Scotland) Act 2005, and is considered to pass the tests set out in Paragraph 1 of Schedule 6 to the Finance Act 2010 and therefore it meets the definition of a charitable company for UK Corporation tax purposes.

Accordingly, the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 287 of the Corporation Tax Act 2009 and Sections 471 and 478 – 488 of the Corporation Tax Act 2010 (formerly enacted in Section 505 of the Taxes Act 1988) or Section 256 of the Taxation of Chargeable Gains Act 1992 to the extent that such income or gains are applied to exclusively charitable purposes. The University receives no similar exemption in respect of Value Added Tax.

33. Related party transactions

Due to the nature of the University's operations and the composition of Court (being drawn from local public and private sector organisations) it is inevitable that transactions will take place with organisations in which a member of Court may have an interest. All transactions involving organisations in which a member of Court may have an interest are conducted at arms length and in accordance with the University's Financial Regulations and usual procurement procedures.

The University makes certain payments on behalf of and is re-imbursed for certain costs by the Students' Association (USSA). The University does not exercise day to day control over the activities of USSA.

In line with the Committee of University Chairmen guidance, all members of Court are required to complete a register of interests to record any areas of potential conflict with the interests of the University. A register of interests is maintained for members of Court and no related party transactions of a material nature were reported during the year.

Membership of spin-out companies and other associated companies was reviewed and there is no significant University representation in these companies. No material payments have been made to these companies.

34. HE bursaries and other student support funds

	2013 HE Childcare £000	2013 HE Discretionary £000	2013 Total £000	2012 Total £000
Balance brought forward	292	153	445	95
Allocation received in the year	466	911	1,377	1,496
Expenditure	(133)	(830)	(963)	(1,115)
Repaid as clawback	(292)	(153)	(445)	(31)
Balance carried forward	<u>333</u>	<u>81</u>	<u>414</u>	<u>445</u>
Repayable as clawback	<u>333</u>	<u>81</u>	<u>414</u>	<u>445</u>

These grants are available solely for students. The University acts only as paying agent. The grants and related disbursements are therefore excluded from the Income and Expenditure Account.

court membership 2012/13

Court Membership 2012/13

Convener of Court

Mr R J A Hunter

Ex Officio

Principal and Vice-Chancellor
Professor Sir J McDonald

Vice-Principal Professor K Miller

Glasgow City Council

Councillor S Curran

Senate

Professor J Fraser
Dr V O'Halloran
Professor N Nic Daeid
Professor J Thomson
Professor L Woolfson

Graduates Association

Dr Rose-Mary Harley

President of the Students Association plus Another Member of the Student Executive

Mr M Moir (until 31/07/13)
Ms R Maxwell Stewart (until 31/07/13)

Co-opted by Court (Lay Members)

Mr J Beeton
Dr A Bethel
Mr R Cleland (Vice-Convener of Court)

Mr R Crawford

Mr D Gray

Ms G Hastings §

Convener, Mr R J A Hunter

Ms M McGarry
Dr J Morgan
Dr J S Perry (Treasurer)

Ms M Venman
Mr M Wishart (until 31/7/13) §

Non-Teaching Staff

Mr Niall Sturrock

§ Ms G Hastings replaced Mr M Wishart as Convener of Audit Committee in November 2012.

The following individuals were not members of Court during the financial year to 31 July 2013 but were members of Court on the day the Financial Statements were approved:

Mr K Adjei, Ms R Salih

Membership of Principal Committees of Court

Convener of Court Membership Group, Remuneration Committee and Court Business Group

Convener of Executive Team, Member of Estates Committee, Staff Committee, Court Membership Group and Court Business Group

Convener of Staff Committee, Member of Executive Team, Court Membership Group and Court Business Group

Member of Court Business Group, Estates Committee and Court Membership Group

Member of Estates Committee

Member of Staff Committee, Court Business Group, Court Membership Group and Remuneration Committee

Member of Audit Committee (until November 2012) and Court Business Group

Member of Court Business Group, Estates Committee, Court Membership Group and Remuneration Committee

Convener of Audit Committee and Member of Court Membership Group

See above

Member of Audit Committee

Member of Audit Committee (from November 2012)

Member of Estates Committee, Court Business Group, Court Membership Group and Remuneration Committee

Member of Staff Committee

Member of Audit Committee and Member of Remuneration Committee

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University of Strathclyde Glasgow

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