Statement of Accounts 12/13

UNIVERSITY OF KEELE

STATEMENT OF ACCOUNTS

FOR THE YEAR ENDED 31 JULY 2013

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OPERATING AND FINANCIAL REVIEW

These Financial Statements comprise the consolidated results of the University and its wholly owned subsidiary companies. The University undertakes certain activities, which for greater management focus and commercial reasons are better channelled through subsidiary companies. To achieve tax efficiency each year the subsidiary companies gift aid any taxable profits to the University.

Results for the Year

The University made a consolidated surplus of £6,255k for the 2012/13 financial year. The consolidated income and expenditure results for the year to 31 July 2013, together with the 2011/12 comparisons, are summarised below

	2012/13	2011/12
	£'000	£'000
Income	**120,859**	119,215
Release from revaluation reserve	**783**	726
	121,642	119,941
Expenditure	**(115,448)**	(114,318)
Share of operating loss in joint venture	**(66)**	(4)
Deferred taxation in subsidiary companies	**15**	(2)
Net transfer from endowment funds	**112**	102
Historical cost surplus for the year	**6,255**	5,719

Review of the 2012/13 results and future forecasts and performance of the University

The surplus for 2012/13 represents an excellent result, in excess of budget, which builds on the strong financial performance of the previous three years.

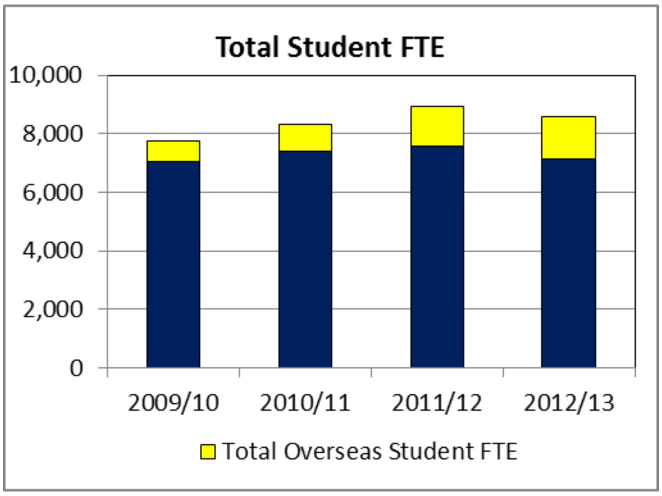
Student Recruitment

Student recruitment was very strong for the three years to 31 July 2012. In 2012/13 the position was consolidated although there was a slight decline in overall student numbers. This was due to the restrictions placed on Universities in respect of the number of home students that can be recruited and the fact that a large cohort of home undergraduate students recruited in 2009/10 graduated and left the University at the end of 2011/12. The University continues to work hard at attracting high performing home undergraduate students from a range of diverse backgrounds in order to consolidate its position in the market. This includes recruiting to the full extent allowed by the student number control and to the intake limit on undergraduate medical students. For 2012/13 the University was again successful in recruiting up to these limits and early signs are that recruitment for 2013/14 has also been successful. The University continues to strive to attract more students with higher entry qualifications that fall outside the student number control.

The number of overseas students continued to rise and overseas fee income increased from £13.4m in 2011/12 to £14.5m in 2012/13. This was despite a slight reduction in recruitment compared with 2011/12, which was a record year for overseas recruitment. It is believed that some of the reduced intake was due to students experiencing problems in obtaining visas.

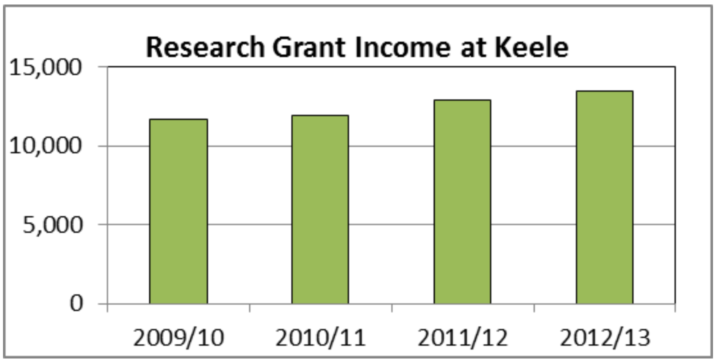
The University views the provision of the highest quality student experience to a diverse student body as being key to improving recruitment and retention and this is a major aim of the 2010–15 Strategic Plan. At a time when Keele is expanding its numbers of international students, as well as consolidating its home undergraduate numbers, it is felt important to review and improve the overall experience Keele offers to a diverse range of students whilst providing them with the best opportunity of progressing once they have completed their studies at Keele. To this end the Keele Graduate Attributes programme and the Distinctive Keele Curriculum continue to be embedded across the University and substantial additional investment is being made in student support services. These initiatives will help Keele students to become well rounded, distinctive graduates who are capable of making a positive and valued contribution in a complex and rapidly changing world, whichever sphere of life they engage in after their studies are completed.

The total student body at Keele for each of the last four years, measured by full-time equivalents (FTEs), is shown on the following graph. The graph distinguishes between UK and EU students (home) and other international students (overseas).



Research

Research grant income continues to grow year on year and was £13.5m for 2012/13, with some major grant successes across all three Faculties. The amount of research grant income received over the last four years, in £000, is shown on the graph below. In addition, postgraduate research (PGR) student numbers have continued to show excellent growth and the total of 382 full-time equivalent students during 2012/13 represents an all-time high for the University.

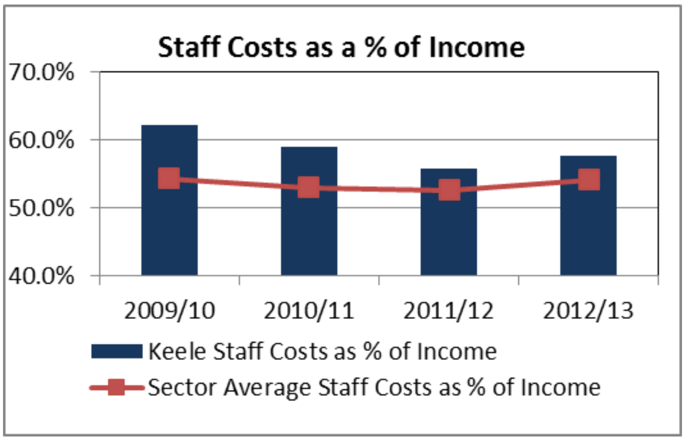


During 2012/13, in addition to increasing its research income and postgraduate research student numbers, the University continued to focus significant effort on preparation for its submission to the Research Excellence Framework in November 2013,

Staff Costs

The University has historically had high staff costs as a proportion of income compared with the sector. Staff pay costs for 2012/13 were 57.7% of income. This represents a significant improvement from 2008/09 when staff costs were just below 68% of income. In addition, the 2012/13 staffing costs include a one-off cost of £1.5m, 1.2% of income, in relation to the Local Government Pension Scheme. This is explained further in the section on Pensions. For the future it is important that the University continues to monitor its staff costs closely and addresses any identified areas of over-staffing, whilst also being able to invest in key areas which will contribute to its future sustainability. A specific objective within the Financial Strategy 2010-15 is to reduce staff costs to less than 58% of income and then to bring them further in line with the sector average.

The following graph below shows Keele University's staff costs as a percentage of income over the last four years compared with the sector average.



OPERATING AND FINANCIAL REVIEW

Changes to Governance and Management

Mr Ian Dudson resigned as Pro-Chancellor and Chair of Council on 31 July 2012 in order to be able to carry out his new role as Lord Lieutenant of Staffordshire. The university was fortunate to be able to appoint Mr Malcolm Peckham, one of the existing Deputy Pro-Chancellors, as the new Pro-Chancellor and Chair. Mr Peckham has a distinguished career in the education sector and is well placed to fulfil this role. Mr Peckham is undertaking the role of Pro-Chancellor and Chair of Council for the two year period to 31 July 2014, at which point his term of office as a Council member comes to an end. During 2012/13 the University was successful in recruiting Mr Ralph Findlay to join Council with effect from 1 August 2013 and to take on the roles of Pro-Chancellor and Chair of Council from 1 August 2014. Mr Findlay is Chief Executive Officer of Marston's PLC and has a strong business and financial background.

Mr Rama Thirunamachandran, Deputy Vice-Chancellor and Provost, leaves Keele on 30 September 2013 to take up the position of Vice-Chancellor and Principal at Canterbury Christ Church University. Over the last five years Mr Thirunamachandran has demonstrated outstanding personal and leadership qualities and has made an invaluable contribution across all areas of the University, both academic and administration. The University has been successful in recruiting a strong academic leader to replace Mr Thirunamachandran in this key role. Professor Trevor McMillan, currently Pro-Vice Chancellor for Research at Lancaster University, will commence at Keele in January 2014.

Professor Marilyn Andrews retired from the University in August 2013. Professor Andrews joined the University in 1994 and in 2009 was appointed to the role of Pro-Vice Chancellor (Education and Student Experience). As Pro-Vice Chancellor Professor Andrews worked with a wide range of staff and students across the University and has had a transformational impact on the University's education agenda and the student experience. Following a formal selection process, Professor Fiona Cownie, Professor of Law in the Keele School of Law, was appointed as Pro-Vice Chancellor (Education and Student Experience) from 1 September 2013 for a period of five years.

Strategic Planning

Keele University's current Strategic Plan covers the period through until 2015 and the University is confident that despite the turbulent external environment since 2010 most of the strategic aims and targets will have been achieved by 2015. Strategic aim 6 is to manage and develop resources effectively to ensure the University's sustainability and development. A key objective supporting this aim is to promote financial sustainability and achieve increasing discretionary reserves by managing costs and maximising and diversifying income to generate annual operating surpluses of at least 5% of income by 2015/16. For 2012/13 the University has indeed made a surplus of £6,255k, representing 5.1% of income. It is also committed to making surpluses in the future which, in the medium term, consistently exceed 5%. This is necessary both to fund capital loan repayments and capital projects and also to build-up the University's discretionary reserves.

The University has commenced preparation for the next stage of its strategic development, to cover the period beyond 2015, through until 2020. This has involved away-days for the executive, senior management and the University's Council together with the establishment of strategic working groups to consider key academic themes, such as, undergraduate education, postgraduate education, research and internationalisation. Further working groups, for example in the areas of finance and resources, student experience and estates planning, are reviewing the University's support strategies and operations to ensure that they adequately underpin and support the delivery of the University's academic aims.

In addition to the timescale required to develop the University's Strategy for 2015 and beyond, there are additional factors which underline the importance of beginning the process at this point. Firstly, 2013 will see the completion of two significant external reviews, the QAA Institutional Review and the HEFCE Research Excellence Framework (REF). Both have been a key focus of staff attention and effort during the year. The outcome of the Institutional Review has been very positive. The REF is to be submitted at the end of November 2013, although the outcomes of the REF will not be known until late 2014.

Secondly, the changing nature of the undergraduate recruitment markets will be clearer after the 2013/14 cycle of admissions has been completed in October 2013. While many of the challenges of the new fees regime and student number controls are already well known and understood, this next cycle will give greater clarity on the behaviours of students and competitors in the new HE market. The University will need to reflect on this and respond appropriately.

Thirdly, 2013 has seen the achievement of the initial targets on the University's journey to financial stability. Although the University is meeting its financial milestones, there are both internal and external pressures that are challenging its capacity to sustain or enhance its financial position. These include the risks that may emerge from the government Spending Review, the political challenges in the run-up to the General Election in 2015 (and any subsequent policy re-direction), the challenges of the markets for students and research funding, the demands for capital investment to sustain and enhance Keele's estate and facilities, and the continuing pressures to grow staffing in order to enhance quality and student experience. There are also specific challenges relating to future NHS and teacher training funding. The University needs to ensure that its strategic thinking addresses the need to enhance its financial sustainability. As part of its strategic planning for 2015 and beyond, the University will review and revise its financial targets to ensure that they adequately support the University's strategic aims against a changing and challenging financial environment.

Capital Projects

The University and subsidiaries invested a total of over £15m in capital expenditure projects during 2012/13. Key projects which were completed in August and September 2012 for the start of the 2012/13 academic year included major improvements to Union Square and the Students' Union Building at the heart of campus, a new nursery and the restructuring of the Darwin building to provide a dedicated centre for the Keele Management School. In addition during 2012/13 a major project to improve the signage and maps across campus was completed. The extension to the Medical School, including a major extension to the anatomy suite, was completed for the start of the 2013/14 academic year.

OPERATING AND FINANCIAL REVIEW

The University continues to invest in a rolling-programme of refurbishment and upgrade of its student accommodation. Further capital developments, by both the University and its subsidiary companies, are planned for the future. These developments will include the continuing refurbishment, and in some cases replacement, of student residences and the improvement of academic and campus facilities. These are seen as priority projects by Council, which recognises that good quality halls of residence and campus facilities are essential to meeting the strategic aim of providing a high quality student experience.

After the year-end, in August 2013, the University purchased the four innovation centre buildings situated on campus that were previously owned by Keele Park Developments Ltd. At the same time the University sold its 25% shareholding in Keele Park Developments Ltd to the only other shareholder, Pochins PLC, for £1. The only assets of the company were the four buildings and the associated trading business and Pochin's will now take steps to wind-up the company.

Investments and Loans

As at 31 July 2013, the University had fixed asset investments with a book value of £56m and short-term deposits of £25m.

The balance on the term loans at 31 July 2012 was £33m. This includes a £20m loan facility which was drawn down in January 2013 and which is being used to fund the capital developments to improve the campus, including proposed major improvements to student accommodation.

Pensions

Pensions for the majority of the University's staff are provided either through the Universities Superannuation Scheme (USS) or the Keele Superannuation Scheme (KSS).

USS is a defined benefit scheme. It is a national multi-employer scheme providing pensions for the UK higher education sector. The latest triennial valuation of the Scheme as at 31 March 2011 showed that the Scheme had an overall deficit of £2,910.2m. As USS is a multi-employer scheme, the University does not include a share of any deficit on its balance sheet and the amount charged to the income and expenditure account is the total of employer contributions payable to the Scheme during the year. At 31 March 2013 USS had over 148,000 active members and the University had 1,287 active members participating in the scheme. The current employer contribution rate paid by the University is 16% of pensionable salaries. Employee contributions are either 6.5% (Career Revalued Benefits section) or 7.5% (Final Salary section) of pensionable salaries.

KSS is a final salary defined benefit scheme, specifically for University of Keele employees. The scheme is closed to new entrants. It currently has 95 active members, 223 retired members and 109 deferred members. At 31 July 2013 the scheme had assets of £27m and liabilities of £45m giving a deficit of £18m. This deficit is included on the University's balance sheet. The current employer contribution rate paid by the University is 27.4% of pensionable salaries. Employee contributions are 7.5% of pensionable salaries. In addition the University continues to make substantial additional contributions in order to reduce the deficit over a 20-year period. These additional contributions totalled £824k for 2012/13. The University is currently consulting with the KSS active members on closing KSS to future accrual and transferring active members to USS. The consultation is due to close on 9 November and a decision will be made shortly thereafter.

The University has 7 active members in the Local Government Pension Scheme (LGPS) together with 36 retired and deferred members. This is a multi-employer defined benefit scheme which is externally funded. This Scheme has previously been accounted for as if it were a defined contribution scheme with the amount being charged to the income and expenditure account being the contributions payable to the scheme during the year. This treatment was adopted because the scheme deficit and contributions were not considered material to the accounts. However with the increase in the level of the deficit, the University believes that it is now true and fair to include the full deficit and disclosures in the accounts. This change has resulted in a one-off net increase in staff costs of £1.5m for the year. The deficit at 31 July 2013 attributable to the University was £1.2m.

In line with many other defined benefit schemes the long term funding positions of USS, KSS and LGPS have been adversely affected by the unprecedented low yield on government securities, which causes an increase in the valuation of the liabilities, by increases in staff pay levels and by the increased expected longevity of pensioners in the scheme. The on-going costs and risks associated with both pension schemes continue to be an important element in the future financial planning for the University.

Income and Expenditure Reserves

Before accounting for the pension liability, the balance on the consolidated income and expenditure reserve at 31 July 2013 was £19m, which represents a considerable improvement compared with recent years. The medium-term commitment included in the University's Strategic Plan is to have discretionary reserves of at least 20% of income by 31 July 2016. As discretionary reserves at 31 July 2013 already exceed 16% the University is confident that that this target will be achieved. Despite the significant improvement over recent years, the University is aware that its discretionary reserves are low compared with the sector and remains committed to increasing them year on year.

Risk Management

The following key principles outline the University's approach to risk management and internal control:

- Council has responsibility for establishing an overall risk management policy within the University, which ensures that appropriate systems of management and control for the identification, evaluation, management and monitoring of risks that exist within the University.

- The University and its Council has an open and receptive approach to risk, which encourages honesty about risk and an acceptance that however good the risk management of the University is, problems will sometimes occur.

- The Vice-Chancellor and the senior management team support, advise on and implement policies approved by Council. They are also responsible for encouraging good risk management practice throughout the University and reporting regularly on the status of the risks and controls.

- The University makes realistic recognition and disclosure of the financial and non-financial implications of risk.

- Key risk indicators are identified and closely monitored on a regular basis.

- Council has agreed that the University should define its risk appetite and has approved both an institutional risk appetite statement and individual appetite statements for key risk areas.

The University has in place a risk register that facilitates the identification, assessment and on-going monitoring of risks significant to the University. The register is formally appraised on an annual basis. Emerging risks are added as required, and actions and risk indicators are monitored regularly. The risk register is directly linked to the University's Strategic Plan. The progress towards achieving each of the Strategic Plan objectives is reported and monitored in the risk register. This indicates the University's progress against the Strategic Plan and the risk of not meeting the University's strategic objectives. The University risk register is underpinned by local risk registers in all Faculties and Directorates and these local registers are monitored and updated on a regular basis.

Subsidiary Companies

The wholly owned subsidiary companies that traded during the year were Keele University Science and Business Park Ltd, Keele University Science Park Ltd and Keele Facilities Management Ltd.

Keele University Science and Business Park Ltd was established to support the development of the 70-acre site adjacent to the existing Science Park. The infrastructure works on the site are now fully completed with funding of £9.5m provided by Advantage West Midlands in the form of a repayable grant. Although the current economic climate has prevented early development of the site, it still provides an exciting development opportunity for the future. In addition, the company has now completed the refurbishment of Home Farm, a previously dilapidated building near to the entrance of the new site. The refurbishment provides both a University facility to demonstrate sustainable energy technologies and rental space for new businesses, including student start-up businesses.

Keele University Science Park Ltd has developed commercial properties on the University campus for rental purposes. During the 2012/13 financial year the company made a gift aid contribution of £293k to the University.

Keele Facilities Management Ltd provides facilities management within the local area and to the higher education sector. In the financial year, the company made a gift aid contribution of £164k to the University.

Going Concern

The University ended the year with current asset investments of £25m. In addition a significant proportion of the fixed asset investments is invested in liquid funds that could be available to the University at short notice. The budget for 2013/14 shows that the University will continue to generate a surplus and the cash-flow forecasts indicate that there are adequate available financial resources. The majority of the University's external funding of £33m is long-term in nature with more than 70% repayable beyond 5 years. On this basis, the Council is assured that the University has adequate resources to continue in operational existence for the foreseeable future and for at least 12 months from the date of signature of these financial statements.

Public Benefit Statement

The University of Keele is an exempt charity under the terms of the Charities Act 1993 and the members of the University's Council also act in the capacity of Trustees to the charity. This Public Benefit Statement has been included as part of the reporting requirements introduced by the Higher Education Funding Council for England (HEFCE) as the principal regulator of English higher education institutions under the Charities Act 2006.

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

The overall aim of the University is to promote teaching and research excellence. The powers set out in the University Charter make specific provisions for the advancement of education and knowledge; one of the requirements in the Charter being "to provide instruction in such branches of learning as the University may think fit and to make provision for research and for the advancement and dissemination of knowledge in such a manner as the University may determine."

Bringing this aim up to date, Keele's vision is to continue to be one of the UK's leading campus-based University communities. This is supported by the University's mission, which is, to provide a high quality educational experience for students shaped by outstanding research, contributing positively to social, environmental and economic agendas locally, nationally and internationally. Observing Keele's founding ethos of "the pursuit of truth in the company of friends", the University is committed to a set of values that underpin its vision and mission.

OPERATING AND FINANCIAL REVIEW

During 2010/11 the University reviewed and updated its Strategic Plan. The revised Plan that was approved by Council in June 2011 has six over-arching Strategic Aims:

- To be a broad based University of about 10,000 students, recognised internationally for excellence in education and research
- To provide the highest quality student experience to a diverse student body
- To deliver international excellence and impact in focused areas of research
- To contribute positively to the society, economy, culture and health of the communities we serve through our research, education and enterprise
- To develop an environmentally aware and sustainable outward-facing campus community
- To manage and develop resources effectively to ensure the University's sustainability and development..

Student Admission and Widening Participation

Widening Participation is about giving people with the ability to benefit from a university education the information and opportunity to access it, regardless of social and economic circumstances. Keele University is committed to fair access, ensuring that all its courses, including the most competitive, can be accessed by students from any background. Keele practises fair admissions policies and provides bursaries (financial payments to undergraduates) and support in order that individuals from under-represented groups at University have the best chance of success when choosing Keele as a place to study. One of Keele's underpinning values is the equality of educational opportunity.

In order to achieve widening participation the University works with thousands of school-aged students every year. It also works with parents, teachers, other Higher Education Institutions and external partners providing information and aspiration-raising activities. Most of this work is now delivered through the "KeeleLink" partnership programme, which aims to provide maximum benefit to local and regional partner schools and colleges.

Research for the Public Benefit

The University places a high value on excellent research and supports internationally competitive expertise throughout Natural Sciences, Humanities and Social Sciences, and Health. The quality and extent of the University's research of an international standard was underlined in the latest UK-wide Research Assessment Exercise (RAE) of 2008. Some 85% of the research assessed through the RAE is now classified as world leading and of international importance. The University produces high quality, multi-disciplinary research and applies the research knowledge to produce beneficial outcomes. Examples of this include combating tropical diseases, improving social care outcomes, developing sustainable energy technologies and alleviating arthritis. Significant new grants awarded during 2012/13 relate to ground-breaking research in the areas of astrophysics, combustion technologies and primary care. Keele's Arthritis Research Centre of Excellence status has, following extensive external review, been renewed for a further five years with funding of £2.2m.

Environmental Sustainability Policy

There is considerable expertise at Keele both in terms of environmental policy and science. This expertise has led to the development of new multi-disciplinary courses in Environment and Sustainability with other programmes also planned. Keele is establishing itself as a hub for environmental sustainability demonstrating new initiatives to universities, researchers, local communities, schools, national and international experts, and those wishing to learn about sustainability.

A challenging Environmental Policy has been adopted covering areas such as greening the curriculum, energy reduction, waste reduction, sustainable development and transport. Building on Keele's longstanding environmental commitment the policy includes a series of demanding targets, including developing a strategy to become a carbon neutral campus. The goal of becoming a carbon neutral campus has led to the publication of a new energy strategy which sets out plans to be generating 50% of the University's energy needs on campus by 2020. Exploration drilling is already underway to evaluate the viability of utilising coal bed methane on site and plans are advancing for the development of up to 5mW of wind energy on site.

Conclusion

The surplus of £6,255k demonstrates our continued financial strength and extends the positive trend of rising surpluses in recent years. Whilst we are not complacent about the challenges facing the University up to 2015 and then for 2015 and beyond, we believe that the improved financial position provides a good, solid basis for the future development and sustainability of the University. We would like to thank all staff across the University for their hard work and dedication throughout the year.

Professor NH Foskett Vice-Chancellor	D Webster Treasurer

November 2013

CORPORATE GOVERNANCE

The following statement is provided to enable readers of the Annual Review and Statement of Accounts of the University of Keele to obtain a better understanding of its governance and legal structure.

The University of Keele is an independent corporation and is the successor to the University College of North Staffordshire, founded in 1949. The University derives its legal status from the Royal Charter granted in 1962 (as subsequently amended) and the status of its degrees is recognised by the University of Keele Act 1962. Like many English universities, the University is a charity exempt from registration with the Charity Commission, and since 1 June 2010 the Higher Education Funding Council for England has been the principal charity regulator for the University.

The University is committed to exhibiting best practice in all aspects of corporate governance. The University endeavours to conduct its business in accordance with the seven principles identified by the Committee on Standards in Public Life (selflessness, integrity, objectivity, accountability, openness, honesty and leadership) and with the guidance to universities from the Committee of University Chairmen (CUC) in its "*Guide for Members of HE Governing Bodies in the UK"*.

In line with CUC guidance, Council undertook a review of its own effectiveness during the 2010/11 financial year. The work of the Review Group indicated a strong and healthy relationship between Council and the senior management team. Council is challenging of management whilst remaining constructive and supportive. Matters of strategic importance are presented to Council and appropriate information around the risks currently facing the University and action to mitigate such risks are also presented and discussed. Key financial information, including action being taken to improve financial performance and sustainability, is presented and Council members are fully involved in developing the University's strategic plan.

The University's powers and framework of governance are set out in the Charter, its supporting Statutes, Ordinances and Regulations. These currently require the University to have two separate bodies, each with clearly defined functions and responsibilities, to oversee and manage its activities, as follows:

- **The Council** is the supreme governing body, responsible for the finance, property, investments and general business of the University, and for setting the general strategic direction of the institution. Council members are sometimes referred to as the Trustees of the University. Council has a majority of members from outside the University (described as lay members), from whom its Chair and Deputy Chair must be drawn. Members also include representatives of the University's academic and support staff and student body. None of the lay members receive any payment, apart from the reimbursement of expenses, for the work they do for the University. For a full list of Council members who have served during the last year see the final page of this report.

- **The Senate** is the academic authority of the University and draws its membership entirely from the academic and academic related staff and the students of the institution. Its role is to regulate and superintend the education, welfare and discipline of students and the promotion of learning and research. The Vice-Chancellor is the Chair of the Senate.

The principal academic and administrative officer of the University is the Vice-Chancellor, who has a general responsibility to the Council for maintaining and promoting the efficiency and good order of the University. Under the terms of the formal financial memorandum between the University and the Higher Education Funding Council for England (HEFCE), the Vice-Chancellor is the accountable officer of the University.

The Council meets four times a year and has several committees, including a Strategic Planning Committee, a Nominations Committee, several Promotions Committees for different categories of staff, a Senior Remuneration Committee, an Occupational Health and Safety Committee, an Approvals Group, an Equality and Diversity Committee and an Audit Committee. All of these committees are formally constituted with written terms of reference and, with the exception of the Equality and Diversity Committee and Health and Safety Committee which have broader membership, they have majority lay member representation.

In respect of its strategic and development responsibilities, the Council receives recommendations and advice from the Strategic Planning Committee on all matters concerning the strategic development of the University, including the allocation of resources to meet the strategic plans, and all other matters concerning the management of the University finances. The Strategic Planning Committee recommends the annual revenue and capital budget and monitors performance against budget during the year.

The Nominations Committee considers nominations for vacancies in the Council membership under the relevant Statute. The University, in accordance with guidance based on the Lambert Report, has advertised vacancies nationally against defined person specifications.

The Senior Remuneration Committee determines the remuneration of the most senior academic and academic related staff, including the Vice-Chancellor.

The Occupational Health and Safety Committee considers matters related to staff and student health and safety on University premises and fulfilment of statutory obligations in this respect.

The Council Approvals Group deals with highly complex issues, usually of a financial nature, which are delegated to it by Council and which require more time and detailed scrutiny than could be given by Council or the Strategic Planning Committee.

The Equality and Diversity Committee is responsible for oversight of all matters concerning the strategic direction and development of equality and diversity related activities and for ensuring that the University meets the obligations set out in its Equality and Diversity Strategy.

CORPORATE GOVERNANCE

The Audit Committee meets at least three times a year, with the University's external and internal auditors in attendance. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's responses and implementation plans. It also receives and considers reports from HEFCE as they affect the University's business and monitors adherence to the regulatory requirements. Whilst senior executives attend meetings of the Audit Committee, they are not members of the Committee and the Committee members may meet the External Auditors on their own for independent discussions.

The University maintains a Register of Interests of members of the Council, which may be consulted by arrangement with the University Secretary. Any enquiries about the constitution and governance of the University should also be addressed to the University Secretary.

Statement of Primary Responsibilities - The Role of Council

The appointment and powers of Council are laid down by the Charter and statutes of the University. Its main general responsibilities and duties, as adopted in June 2011 as part of the Council Review of Council Effectiveness, are as follows:

1. To approve the mission and strategic vision of the institution, long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.
2. To delegate authority to the head of the institution, as chief executive, for the academic, corporate, financial, estate and personnel management of the institution. To establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the head of the institution.
3. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
4. To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the institution against the plans and approved key performance indicators, which should be – where possible and appropriate – benchmarked against other comparable institutions.
5. To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself.
6. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
7. To safeguard the good name and values of the institution.
8. To appoint the head of the institution as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
9. To appoint a secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the institution, there is an appropriate separation in the lines of accountability.
10. To be the employing authority for all staff in the institution and to be responsible for establishing a human resources strategy.
11. To be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the institution's assets, property and estate.
12. To be the institution's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal obligations, including those arising from contracts and other legal commitments made in the institution's name.
13. To make such provision as it thinks fit for the general welfare of students, in consultation with the senate.
14. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution.
15. To ensure that the institution's constitution is followed at all times and that appropriate advice is available to enable this to happen.

CORPORATE GOVERNANCE

Risk Management and the System of Internal Control

As the governing body of the University of Keele, the Council has responsibility for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives, while safeguarding public and other funds and assets for which the University is responsible, in accordance with the responsibilities assigned to the governing body in the University's Charter and Statutes, and in the Financial Memorandum with HEFCE. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an on-going process designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks, and to manage them efficiently, effectively and economically. The University has reviewed and updated its risk management procedures, which continue to enable it to be fully compliant with HEFCE requirements.

The University has a published risk management policy, which was approved by Council in June 2011. This policy identifies clearly and distinguishes the roles and responsibilities of both the Council and the executive management team. A key element of the policy is the corporate risk register, which is intrinsically linked to the University's Strategic Plan and is reviewed by both the Audit Committee and the Strategic Planning Committee on a routine basis and amendments are approved by Council. The risk appetite framework was approved by Council in January 2011 and also forms part of the risk management policy. It supports decision-making and monitors a portfolio of activities in different business areas by establishing tolerances in terms of financial risk, resources and the potential impact on the University's reputation.

The University employs UNIAC to undertake its internal audit functions and they operate to standards defined in the HEFCE Audit Code of Practice. The internal auditors submit regular reports to the Audit Committee, including the head of internal audit's independent opinion on the adequacy and effectiveness of the system of internal control, together with recommendations for improvement. The Chair of Audit Committee provides the Council with regular reports concerning internal control.

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

The University considers that it has achieved full compliance with corporate governance requirements and the Committee of University Chairmen Governance Code.
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RESPONSIBILITIES OF THE COUNCIL OF THE UNIVERSITY OF KEELE

In accordance with its Charter of Incorporation, the Council of the University of Keele is responsible for the administration and management of the affairs of the University of Keele including ensuring an effective system of internal control, and is required to present audited financial statements for each financial year.

The Council has responsibility for ensuring that the University keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the University and to enable it to ensure that the financial statements are prepared in accordance with the University's Charter of Incorporation, 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 Higher Education Funding Council for England (HEFCE) and the Council of the University of Keele, the Council, through its accountable 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.

In causing the financial statements to be prepared, the Council has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- Financial statements are prepared on the going concern basis unless it is inappropriate to presume that the University will continue in operation. The Council is satisfied that the University has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Council has taken such steps as are reasonably open to it to:

- Ensure that funds from HEFCE and the National College for Teaching and Leadership are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with HEFCE and the funding arrangement with the National College for Teaching and Leadership and any other conditions which HEFCE or the National College for Teaching and Leadership may from time to time prescribe;
- Ensure that there are appropriate financial and management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the University and prevent and detect fraud;
- Secure the economical, efficient and effective management of the University's resources and expenditure.

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

- Clear definitions of the responsibilities of, and the authority delegated to, heads of academic and administrative departments;
- A comprehensive medium and short-term planning process, supplemented by detailed annual income, expenditure, capital and cash flow budgets;
- 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 investment decisions involving capital or revenue expenditure being subject to formal detailed appraisal and review according to approval levels set by the Council;
- Comprehensive Financial Regulations, detailing financial controls and procedures, approved by the Audit Committee and the Strategic Planning Committee;
- Professional Internal Audit team whose annual programme is approved by the Audit Committee and whose head provides the Council with a report on internal audit activity within the University and an opinion on the adequacy and effectiveness of the University's system of internal control, including internal financial control.

Any system of internal financial control can, however, only provide reasonable, but not absolute, assurance against material misstatement or loss.

INDEPENDENT AUDITOR'S REPORT
TO THE COUNCIL OF THE UNIVERSITY OF KEELE

We have audited the Consolidated and University financial statements (the ''financial statements'') of the University of Keele for the year ended 31 July 2013 which comprise the Consolidated Income and Expenditure Account, the Consolidated and University Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Total Recognised Gains and Losses, the Accounting Policies and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Council, in accordance with the Charter and Statutes of the University and section 124B of the Education Reform Act 1988. Our audit work has been undertaken so that we might state to the Council those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council, for our audit work, for this report, or for the opinions we have formed.

Respective Responsibilities of the University's Council and Auditor

As explained more fully in the Statement of Responsibilities of the University's Council set out on page 11, the Council is responsible for the preparation of financial statements which give a true and fair view. Our responsibility is to audit, and express an opinion, on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the University's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Financial Statements 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 affairs of the University and the Group as at 31 July 2013 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with the United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

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

In our opinion, in all material respects:

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

Matters on which we are required to report by exception

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

- the statement of internal control, included as part of the Corporate Governance Statement, is inconsistent with our knowledge of the University and group.

Trevor Rees
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants, Registered Auditor
St James' Square, Manchester, M2 6DS

CONSOLIDATED INCOME AND EXPENDITURE ACCOUNT

for the year ended 31 July 2013

	Note	**2012/13** £'000	2011/12 £'000
Income			
Funding council grants	1	**26,550**	33,913
Academic fees and support grants	2	**53,041**	43,978
Research grants and contracts	3	**13,475**	12,905
Other operating income	4	**25,792**	26,412
Endowment income and interest receivable	5	**2,001**	2,007
Total income		**120,859**	119,215
Expenditure			
Staff costs	6	**69,744**	66,538
Other operating expenses	7	**38,962**	41,575
Depreciation	11	**5,038**	4,787
Interest payable and other finance costs	8	**1,704**	1,418
Total expenditure		**115,448**	114,318
Surplus after depreciation of assets at valuation and before tax		**5,411**	4,897
Share of operating loss in joint ventures	12	**66**	4
Taxation	10	**(15)**	2
Surplus after depreciation of assets at valuation and tax		**5,360**	4,891
Surplus for the year transferred from accumulated income in endowment funds (including disposals)	13	**112**	102
Surplus for the year after transfer from endowment funds		**5,472**	4,993
NOTE OF GROUP HISTORICAL COST SURPLUSES			
Difference between a historical cost depreciation charge and the actual depreciation charge for the year calculated on the revalued amount	22	**725**	726
Release from revaluation reserve on disposal of assets	22	**58**	-
Historical cost surplus for the year after taxation retained within general reserves	23	**6,255**	5,719

The consolidated income and expenditure of the University and its subsidiaries relate wholly to continuing operations.

STATEMENT OF CONSOLIDATED TOTAL RECOGNISED GAINS AND LOSSES

for the year ended 31 July 2013

	Note	2012/13	2011/12
		£'000	£'000
Surplus after depreciation of assets at valuation and tax		**5,360**	4,891
Receipt of endowments	13	**104**	121
Actuarial loss in respect of pension schemes	23	**(1,717)**	(1,766)
Reversal of unrealised surplus of fixed asset investments		**-**	(195)
Total recognised gains for the year		**3,747**	3,051

Reconciliation	**£'000**	£'000
Opening reserves and endowments	**27,838**	24,787
Total recognised gains for the year	**3,747**	3,051
Closing reserves and endowments	**31,585**	27,838

UNIVERSITY AND CONSOLIDATED BALANCE SHEET
as at 31 July 2013

		Consolidated		University	
		2013	2012	**2013**	2012
	Note	**£'000**	£'000	**£'000**	£'000
Fixed assets					
Tangible assets	11	**167,246**	156,509	**148,244**	137,826
Investments	12	**55,680**	55,383	**56,155**	55,858
Investment in joint venture:	12				
Share of gross assets		**16**	4	**-**	-
Share of gross liabilities		**(328)**	(250)	**-**	-
		222,614	211,646	**204,399**	193,684
Endowment asset investments	13	**1,035**	1,043	**1,035**	1,043
Current assets					
Stocks and stores in hand		**232**	251	**232**	250
Debtors					
- amounts falling due within one year	14	**5,573**	6,431	**5,791**	6,401
- amounts falling due after one year	14	**2,335**	2,464	**9,356**	8,779
Investments	15	**24,707**	9,317	**24,707**	9,317
Cash at bank and in hand		**2,512**	1,491	**2,154**	912
		35,359	19,954	**42,240**	25,659
Less: Creditors - amounts falling due within one year	16	**51,921**	49,034	**52,344**	48,879
Net current liabilities		**(16,562)**	(29,080)	**(10,104)**	(23,220)
Total assets less current liabilities		**207,087**	183,609	**195,330**	171,507
Less: Creditors - amounts falling due after more than one year	17	**106,955**	91,992	**97,461**	82,498
Less: Provisions for liabilities	19	**217**	249	**199**	216
Net assets excluding pension liability		**99,915**	91,368	**97,670**	88,793
Net pension liability	34	**(19,408)**	(16,571)	**(19,408)**	(16,571)
Net assets including pension liability		**80,507**	74,797	**78,262**	72,222

UNIVERSITY AND CONSOLIDATED BALANCE SHEET
as at 31 July 2013

		Consolidated		University	
		2013	2012	**2013**	2012
	Note	**£'000**	£'000	**£'000**	£'000
Deferred capital grants	20	**48,922**	46,959	**45,657**	43,765
Endowment funds					
Expendable	21	**834**	866	**834**	866
Permanent	21	**201**	177	**201**	177
		1,035	1,043	**1,035**	1,043
Reserves					
Income and expenditure account excluding pension reserve		**18,932**	11,557	**21,554**	13,800
Pension reserve		**(19,408)**	(16,571)	**(19,408)**	(16,571)
Income and expenditure account including pension reserve	23	**(476)**	(5,014)	**2,146**	(2,771)
Revaluation reserve	22	**31,026**	31,809	**29,424**	30,185
		30,550	26,795	**31,570**	27,414
Total funds		**80,507**	74,797	**78,262**	72,222

The financial statements on pages 13 to 50 were approved by the Council on 7 November 2013, and signed on its behalf by:

N. H. Foskett, Vice-Chancellor

M. D. Peckham, Pro-Chancellor

D. Webster, Treasurer

K. J. Clarke, Director of Finance and IT

CONSOLIDATED CASH FLOW STATEMENT
for the year ended 31 July 2013

	Note	2012/13	2011/12
		£'000	£'000
Net cash inflow from operating activities	30	**8,128**	7,860
Returns on investments and servicing of finance	32	**(28)**	127
Capital expenditure and financial investment	33	**(10,355)**	(8,952)
Cash outflow before use of liquid resources and financing		**(2,255)**	(965)
Management of liquid resources – (outflow) / inflow of short-term deposits		**(15,382)**	1,901
Financing			
Draw-down of new loans	29	**20,000**	-
Repayment of loans	29	**(1,286)**	(831)
Increase in cash		**1,077**	105

Reconciliation of Net Cash Flow to Movement in Net Debt
for the year ended 31 July 2013

		2012/13	2011/12
		£'000	£'000
Increase in cash in the year		**1,077**	105
Increase / (decrease) in short-term deposits		**15,382**	(1,901)
Draw-down of new loans		**(20,000)**	-
Repayment of loans		**1,286**	831
Change in net debt		**(2,255)**	(965)
Net debt at 1 August 2012		**(2,599)**	(1,634)
Net debt at 31 July 2013	31	**(4,854)**	(2,599)

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

1. Basis of Preparation

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

The University's activities, together with the factors likely to affect its future development, performance and position are set out in the Operating and Financial Review. This also describes the financial position of the University, its cash flows, liquidity position and borrowing facilities, the University's capital position and its financial risk management strategy. The Council has a reasonable expectation that the University has adequate resources to continue in operational existence for the foreseeable future. Thus it continues to adopt the going concern basis of accounting in preparing the annual financial statements.

These financial statements have been prepared in accordance with the historical cost convention as modified for the revaluation of certain fixed assets.

2. Basis of Consolidation

The Consolidated financial statements include the University, its wholly owned subsidiary companies and a joint venture company for the financial year to 31 July. A full list of these companies is provided in note 12.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income and expenditure account from the date of acquisition or up to the date of disposal. Goodwill arising on consolidation (representing the excess of the fair value of the consideration given over the fair value of the separable net assets acquired) is capitalised on acquisition. Intra-group transactions are eliminated fully on consolidation.

The University's share of income and expenditure in joint venture entities is recognised in the University's income and expenditure account in accordance with FRS 9, Associates and Joint Ventures. Similarly, the University's share of assets and liabilities in associate entities is recognised in the University's balance sheet in accordance with FRS 9. The gross equity method is used when consolidating joint venture entities, and associated entities are consolidated using the equity method in accordance with FRS 9.

Balances between the University and its associates and joint ventures are not eliminated. Unsettled normal trading transactions are included as current assets or liabilities.

The financial statements do not consolidate the Students' Union as it is a separate body in which the University has no financial interest and no control or significant influence over policy decisions.

3. Income Recognition

Funding Council revenue grants are included in the income and expenditure account in line with the specific terms and conditions attached, and are accounted for in the period to which they relate.

Academic fee income is stated gross and credited to the income and expenditure account over the period in which the students are studying. Where the amount of the tuition fee is reduced, income receivable is shown net of any discount. Bursaries and scholarships are accounted for gross as expenditure and included within operating expenditure.

Income derived from research grants and contracts are included in the income and expenditure account to the extent of equivalent expenditure incurred during the year together with any related contributions towards overhead costs. Any payments received in advance are recognised on the balance sheet as liabilities.

Donations with restrictions are recognised when relevant conditions have been met. In many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer 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, including income from short term deposits, 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.

3. Income Recognition (continued)

Increases in value arising on the revaluation of fixed asset investments are carried as credits to the revaluation reserve via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit to the extent that it is not covered by a previous revaluation surplus. Increases/decreases in value arising on the revaluation or disposal of endowment assets, that is the appreciation/depreciation of endowment assets, are added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset and crediting or debiting the endowment fund and are reported in the statement of total recognised gains and losses.

In both 2000/01 and 2006/07 the University received premiums for the lease of student accommodation to Keele Residential Funding plc, previously Owengate (Keele) plc. These premiums, after deducting all direct costs associated with arranging the leases, are being released to the income and expenditure account over the period of the respective lease agreements on a straight-line basis.

4. 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.

5. Foreign Currency Translations

Transactions denominated in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Current monetary assets and liabilities denominated in foreign currencies are translated into sterling at year end rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

6. Leases and Hire Purchase Contracts

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the University, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance leases are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Rental costs under operating leases are charged to expenditure in equal annual amounts over the periods of the lease term.

7. Disposal of Fixed Assets and Assets Held for Re-sale

Where a fixed asset is to be disposed of or is being held for re-sale, it will be transferred from fixed assets to current assets. This will occur where the following criteria are met (a) the asset is not being replaced, (b) there is a commitment to sell the asset and (c) the asset is no longer in use. The asset would then be valued at the lower of cost or net realisable value. After the transfer to current assets, any subsequent profit or loss on disposal of the assets would be disclosed as an exceptional item after the operating result in the income and expenditure account.

8. Land and Buildings

The transitional rules set out in FRS 15, Tangible Fixed Assets, have been applied in implementing FRS 15, and no policy of annual revaluation has been adopted. The values assigned under the transitional rules are retained subject to the requirement to test assets for impairment in accordance with FRS 11, Impairment of Fixed Assets and Goodwill. Land and buildings are stated at the revalued amount. The basis of valuation for the University was an open market value for existing use on Depreciated Replacement Cost, and the valuation at 31 July 1992 was performed by Grimley (International Property Advisers). The basis of valuation for the subsidiary company, Keele University Science Park Ltd, was on an open market capital value at an equivalent yield of 11%, and the valuation at 31 July 1998 was performed by Heywoods, Chartered Surveyors.

Costs incurred after the initial construction of a building 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 costs of any such enhancements are added to the gross carrying amount of the tangible fixed asset concerned.

Depreciation

Freehold land is not depreciated as it is considered to have an indefinite useful life. Buildings are depreciated from the date of completion over their expected useful lives of 60 years and expenditure on furniture and equipment capitalised as part of new capital projects, together with minor renovation work on buildings, is depreciated from the date of purchase on a straight-line basis over 10 years.

Leasehold land and buildings are depreciated over the life of the lease up to a maximum of 60 years.

8. Land and Buildings (continued)

Where buildings are acquired with the aid of specific grants they are capitalised and depreciated as above. The related grants are treated as deferred capital grants and released to the income and expenditure account over the expected useful life of the buildings from the date of completion of the building at the same rate as the depreciation charge on the asset for which the grant was awarded.

Depreciation in relation to the subsidiary companies' head lease and buildings is provided on a straight-line basis at the following rates:-

Head Lease	0.80% on cost
Buildings	1.66% on cost/revaluation

Assets under construction are accounted for at cost, based on the value of the architect's certificates and other direct costs incurred as at 31 July. They are not depreciated until they are brought into use.

9. Equipment and Furniture

Depreciation in relation to equipment and furniture is provided on a straight-line basis from the month of purchase at the following rates:

Equipment and furniture	4 – 10 years on cost

Equipment and furniture costing less than £10,000 per individual item or group of related items is written off in the year of acquisition. All equipment and furniture costing more than £10,000 is capitalised at cost and depreciated over its expected useful life from the month of purchase.

Where it is acquired with the aid of specific grants it is capitalised 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 from the month of purchase at the same rate as the depreciation charge on the asset for which the grant was awarded.

10. Maintenance of Premises

The cost of routine maintenance is charged to the income and expenditure account in the period it is incurred. The University has a planned maintenance programme that is reviewed periodically. Actual expenditure on planned maintenance and repairs is charged to the income and expenditure account in the period it is incurred.

11. Heritage Assets

Works of art and other valuable artefacts (heritage assets) valued at over £50,000 will be capitalised and recognised at the cost or value of the acquisition, where such a cost or valuation is reasonably obtainable. The University uses the valuation for insurance purposes as the basis for the value reflected in the financial statements. No depreciation is provided for heritage assets as they are deemed to have an indeterminate life, but they are reviewed for impairment purposes.

12. Donated Assets

The University's significant donated assets are works of art, porcelain and antiques. These are treated as heritage assets, and are accounted for in line with the heritage asset policy above. Other donated assets are capitalised at market value and depreciated in line with other assets of the same category. All other donated assets currently held have a £nil net book value.

13. Accounting for Goodwill and Intangible Fixed Assets

Goodwill arises on consolidation and is based on the difference between the fair value of the consideration given for the undertaking acquired and the fair value of its separable net assets at the date of acquisition. Goodwill is amortised over its estimated economic life. Where goodwill and intangible assets are regarded as having limited useful economic lives, they are amortised over those lives up to a maximum of 20 years. Impairment tests are carried out at the end of the first year and thereafter subject to normal periodic reviews for indications of impairment. Where there is impairment in the carrying value of goodwill, the loss is incurred in the results for the period.

Internally developed intangible assets are capitalised where there is a readily ascertainable market value.

14. Fixed Asset Investments

Listed investments held as fixed assets are shown at market value. Other fixed asset investments are accounted for using the historical cost method, subject to an annual impairment review. The fixed asset investments include the Keele Residential Fund. An amount equivalent to the expected expenditure on the refurbishment and other capital programmes in the next twelve months is transferred to current asset investments.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

15. Current Asset and Endowment Asset Investments

Investments, which may include listed investments, are included at the lower of cost and net realisable value.

16. Stocks

Stocks comprising raw materials and consumables are stated at the lower of cost or net realisable value. Materials held by academic and academic service departments are excluded, this expenditure being charged to the income and expenditure account when incurred.

17. Taxation

The University is an exempt charity within the meaning of Schedule 3 of the Charities Act 2011 and is considered to pass the tests set out in Paragraph 1 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, but not its subsidiary companies, 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 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 group receives no similar exemption in respect of Value Added Tax (VAT). Irrecoverable VAT on inputs is included in the costs of such inputs in the income and expenditure account. Any irrecoverable VAT allocated to tangible fixed assets is included in their costs.

18. Deferred Taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred taxation is measured using rates of tax that have been enacted or substantively enacted by the balance sheet date.

19. Accounting for Research and Development

Expenditure on pure and applied research is treated as a part of the continuing activities of the University. Expenditure on development activities is carried forward and amortised over the period expected to benefit.

20. Pensions

The University participates in the Universities Superannuation Scheme, a defined benefit scheme which is contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund. Because of the mutual nature of the scheme, the scheme's assets are not hypothecated to individual institutions and a scheme-wide contribution rate is set. The University is therefore exposed to actuarial risks associated with other institutions' employees, and is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as required by FRS 17, Retirement Benefits, accounts for the scheme as if it were a defined contribution scheme. As a result, the amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

The University operates the Keele Superannuation Scheme providing benefits based on final pensionable pay. The assets of the scheme are held separately from those of the University, and the scheme is contracted out of the State Second Pension (S2P). The scheme is closed to new entrants. Pension scheme assets are measured using market values. Pension scheme liabilities are measured using a projected unit method, and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

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

The University participates in the the Local Government Pension Scheme. This is a defined benefit scheme which is externally funded and contracted out of the State Second Pension (S2P). The Local Government Pension Scheme has previously been accounted for as if it were a defined contribution scheme with the amount being charged to the Income and Expenditure account representing the contributions payable to the scheme in respect of the accounting period. This treatment was adopted because the scheme deficit and contributions were not considered material to the accounts. However with the increase in the level of the deficit, the University believes that it is now true and fair to include full FRS17 values and disclosures in the accounts. The assets of the Local Government Pension Scheme are measured using closing market values. Local Government Pension Scheme liabilities are measured using the projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The Local Government Pension Scheme surplus (to the extent that it is recoverable) or deficit is recognised in full for 2012/13. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

20. Pensions (continued)

A small number of staff are also in the NHS pension scheme. The amount charged to the income and expenditure account represents the contributions payable to the scheme in respect of the accounting period.

21. 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.

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 probable asset arising from a past event.

22. 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 donation 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 institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. 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;

2. Restricted expendable endowments - the donor has specified a particular objective (other than the purchase or construction of tangible fixed assets which would be accounted for as a deferred capital grant), and the University can convert the donated sum into income; and

3. 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.

The total return, (where the total return is the whole of the investment return received by the University on the permanent endowment funds regardless of how it has arisen), less any part of the return which has previously been applied for the purposes of the University, remains in the accumulated income fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

23. 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. Overdrafts are included within creditors falling due within one year.

Liquid resources comprise assets readily realisable, and they include term deposits and other instruments held as part of the University's treasury management activities.

NOTES TO THE ACCOUNTS

1 Funding Council Grants

		2012/13	2011/12
		£'000	£'000
Higher Education Funding Council - Recurrent grant		**24,593**	29,081
Higher Education Funding Council - Specific grants		**298**	2,166
National College for Teaching and Leadership		**(2)**	1,008
Deferred capital grants released in year (Note 20)	Buildings	**923**	940
	Equipment	**712**	718
Deferred capital grants released on disposal (Note 20)		**26**	-
		26,550	33,913

2 Academic Fees and Support Grants

	2012/13	2011/12
	£'000	£'000
Home and EU students	**36,871**	28,957
International students	**14,490**	13,419
Short course fees	**1,026**	648
Research training support grants	**654**	954
	53,041	43,978

3 Research Grants and Contracts

	2012/13	2011/12
	£'000	£'000
Research councils	**2,533**	2,792
Charitable bodies	**2,663**	2,491
Other bodies	**8,279**	7,622
	13,475	12,905
Less contribution to overheads	**1,550**	1,273
Expenditure	**11,925**	11,632

The costs of staff and materials utilised in research work undertaken in the Institute of Science and Technology in Medicine and met directly from the funds of the University Hospital of North Staffordshire NHS Trust are not included above. These costs are £66,343 for the Trust's year ended 31 March 2013 (2012: £70,605).

NOTES TO THE ACCOUNTS – continued

4 Other Operating Income	2012/13	2011/12
	£'000	£'000
Residences, catering and conferences	7,963	7,813
Released from deferred capital grants (Note 20)	294	230
Operating lease rentals (see note below)	6,850	6,729
Profit on sale of fixed assets	121	-
Gains on fixed asset investments	305	235
Other income	10,259	11,405
	25,792	26,412

The operating lease rentals comprise the annual rental payment received from Keele Residential Funding plc and the annual release of the lump sum premiums received from the financial restructuring.

5 Endowment Income and Interest Receivable	2012/13	2011/12
	£'000	£'000
Income from expendable endowments (Note 21)	6	9
Income from permanent endowments (Note 21)	1	2
Income from investments	1,978	1,972
Other interest receivable	16	24
	2,001	2,007

6 Staff	2012/13	2011/12
	£'000	£'000
Staff costs:		
Wages and salaries	56,165	54,239
Social security costs	4,227	4,173
Other pension costs (Note 34)	9,173	7,417
	69,565	65,829
Early retirement/severance costs	179	709
There were no early retirement/severances paid to higher paid staff (2012: £262,794 paid in respect of two higher paid staff)	69,744	66,538

A general pay award of 1.0% was made from 1 August 2012

NOTES TO THE ACCOUNTS – continued

6 Staff (continued)

	2012/13	2011/12
	£'000	£'000
Emoluments of the Vice-Chancellor (including accommodation allowance)	**267**	264
Employers' pension contributions	**-**	3
Total remuneration	**267**	267

The emoluments of the Vice-Chancellor include gross pay and a notional accommodation allowance. The Vice-Chancellor left the Universities Superannuation Scheme (USS) on 31 August 2011. Prior to that date, pension contributions to USS were paid by the University at the same rate as for other academic staff.

Emoluments of the highest paid senior post holder	**267**	264

	2012/13	2011/12
Average staff numbers by major category	**Number**	Number
Academic/Research	**613**	620
Technical	**81**	83
Academic related	**232**	221
Secretarial/Clerical	**482**	481
Other	**576**	538
	1,984	1,943

Remuneration of higher paid staff excluding severances and employers' pension contributions

£100,000 - £109,999	**6**	4
£110,000 - £119,999	**1**	-
£120,000 - £129,999	**1**	1
£130,000 - £139,999	**3**	2
£140,000 - £149,999	**2**	3
£150,000 - £159,999	**1**	2
£160,000 - £169,999	**3**	2
£170,000 - £179,999	**-**	1
£180,000 - £189,999	**-**	1
£190,000 - £199,999	**-**	1
£250,000 - £259,999	**-**	-
£260,000 - £269,999	**1**	1

NOTES TO THE ACCOUNTS – continued

7 Other Operating Expenses	**2012/13**	2011/12
	£'000	£'000
Residences, catering and conferences	**4,312**	3,654
Consumables and laboratory expenditure	**944**	825
Books and periodicals	**971**	1,075
Fellowships, scholarships and prizes	**4,339**	4,357
Heat, light, water and power	**3,028**	2,663
Repairs and general maintenance	**4,215**	4,892
Grants to Keele University Student Union and other student bodies	**767**	759
Rent and rates	**1,704**	1,730
Auditors remuneration – external	**43**	43
- other services	**56**	43
- internal	**80**	76
Equipment	**2,360**	1,850
Research expenses	**3,237**	3,215
Teaching fees	**3,306**	3,324
Printing and stationery	**1,380**	917
Telephones	**78**	63
Subscriptions	**1,067**	738
Advertising	**402**	468
Travel, subsistence and conference expenses	**1,565**	1,526
Impairment of fixed asset investments	**3**	2,548
Consultants and works fees	**1,692**	1,990
Licence fees	**553**	611
Insurance	**536**	537
Loss on disposal / impairment of assets	**-**	1,126
Losses on fixed asset investments	**60**	264
Other	**2,264**	2,281
	38,962	41,575

Expense payments to trustees

The Council is considered to be the Trustee Board of the University, and it is composed of members of staff of the University and non-staff (“lay”) members. Council members are eligible to claim for direct expenses incurred in their role as a trustee, for items such as travel expenses in attending Council meetings. Expenses are paid to Council members who are University staff members, but for the year to 31 July 2013 all of these expenses relate to their activity as a member of staff rather than as a trustee. As such, there are no expenses to declare for University staff in their role as a trustee of the University. Additionally, no staff members of Council were paid remuneration, or waived a right to remuneration, for their role as a trustee of the University. The following expenses have been paid to lay members of Council for the year ended 31 July 2013:

Total expenses (£)	Nature of expense	Number of lay trustees claiming expenses
7,000	Travel expenses	7

8 Interest Payable and Other Finance Costs	**2012/13**	2011/12
	£'000	£'000
Bank and other loans wholly repayable within five years	**2**	-
Loans not wholly repayable within five years	**1,159**	916
	1,161	916
Pension finance costs	**543**	502
	1,704	1,418

NOTES TO THE ACCOUNTS – continued

9 Expenditure by Activity	Staff costs	Depreciation	Other operating expenses	Interest payable	Total
	£'000	£'000	£'000	£'000	£'000
Academic departments	36,546	1,366	11,050	-	48,962
Academic services	3,193	871	2,945	-	7,009
Research grants and contracts (Note 3)	8,688	-	3,237	-	11,925
Residences, catering and facilities management	4,435	918	4,581	-	9,934
Premises	3,893	1,261	8,660	365	14,179
Administration and central services	9,148	622	6,994	-	16,764
Restructuring	179	-	-	-	179
Impairment of fixed asset investments	-	-	3	-	3
Staff and student facilities	2,259	-	1,334	-	3,593
Other expenses	1,403	-	158	1,339	2,900
Total per income and expenditure account	69,744	5,038	38,962	1,704	115,448
2011/12	66,538	4,787	41,575	1,418	114,318

The depreciation charge has been funded by:	£'000
Deferred capital grants released	1,955
Revaluation reserve released	783
General income	2,300
	5,038

10 Taxation	**2012/13**	2011/12
	£'000	£'000
Deferred tax on profits of subsidiary companies	**(15)**	2

The University does not believe that any current taxation will be payable by the group.

NOTES TO THE ACCOUNTS – continued

11 Tangible Assets

Consolidated

	Land & Buildings		Equipment		Heritage Assets	Total
	Completed	Under Construction	Completed	Under Construction		
	£'000	£'000	£'000	£'000	£'000	£'000
Valuation/Cost						
At 1 August 2012						
Valuation	66,415	-	-	-	4,642	71,057
Cost	112,839	5,958	32,768	-	-	151,565
Additions at cost	7,849	2,464	4,109	784	-	15,206
Transfer	6,575	(6,575)	-	-	-	-
Revaluation of Heritage assets	-	-	-	-	970	970
Disposals						
Valuation	(89)	-	-	-	-	(89)
Cost	(378)	-	(281)	-	-	(659)
At 31 July 2013						
Valuation	**66,326**	**-**	**-**	**-**	**5,612**	**71,938**
Cost	**126,885**	**1,847**	**36,596**	**784**	**-**	**166,112**
Depreciation						
At 1 August 2012	38,131	-	27,982	-	-	66,113
Charge for year	3,370	-	1,668	-	-	5,038
Eliminated on disposals	(66)	-	(281)	-	-	(347)
At 31 July 2013	**41,435**	-	**29,369**	**-**	**-**	**70,804**
Net book value						
At 31 July 2013	**151,776**	**1,847**	**7,227**	**784**	**5,612**	**167,246**
At 1 August 2012	141,123	5,958	4,786	-	4,642	156,509

NOTES TO THE ACCOUNTS – continued

11 Tangible Assets (continued)

University	**Land & Buildings**		**Equipment**		**Heritage Assets**	**Total**
	Completed	Under Construction	Completed	Under Construction		
	£'000	£'000	£'000	£'000	£'000	£'000
Valuation/Cost						
At 1 August 2012						
Valuation	61,226	-	-	-	4,642	65,868
Cost	98,558	4,901	32,373	-	-	135,832
Additions at cost	7,198	2,464	4,108	784	-	14,554
Transfer	5,518	(5,518)	-	-	-	-
Revaluation of Heritage assets	-	-	-	-	970	970
Disposals						
Valuation	(89)	-	-	-	-	(89)
Cost	(378)	-	(281)	-	-	(659)
At 31 July 2013						
Valuation	**61,137**	**-**	**-**	**-**	**5,612**	**66,749**
Cost	**110,896**	**1,847**	**36,200**	**784**	**-**	**149,727**
Depreciation						
At 1 August 2012	36,227	-	27,647	-	-	63,874
Charge for year	3,055	-	1,650	-	-	4,705
Eliminated on disposals	(66)	-	(281)	-	-	(347)
At 31 July 2013	**39,216**	**-**	**29,016**	**-**	**-**	**68,232**
Net book value						
At 31 July 2013	**132,817**	**1,847**	**7,184**	**784**	**5,612**	**148,244**
At 1 August 2012	123,557	4,901	4,726	-	4,642	137,826

The main buildings and grounds are freehold, except for the University's 60 year interest from 18 January 2008 in a Medical Research building on the University Hospital of North Staffordshire NHS Trust's site with a cost of £981,000 and its 99 year interest from 1 February 2003 in the Undergraduate Medical School on the University Hospital of North Staffordshire NHS Trust's site with a cost of £1,650,000.

The transitional rules set out in FRS 15, Tangible Fixed Assets, have been applied in implementing FRS 15. The land and buildings of Keele University Science Park Ltd were revalued in 1997 at £5,010,000 by Heywoods, Chartered Surveyors. The valuation was based on an open market capital value at an equivalent yield of 11%.

The land and buildings of the University, excluding off campus houses, were revalued at 31 July 1992 at £64,879,000 by Grimley (International Property Advisers). The valuation was based on open market value for the existing use on a Depreciated Replacement Cost basis.

In the Consolidated Accounts the net book value of land and buildings based on historic cost would be £122,223,000 (2012: £115,639,000), the depreciation charge for the year being £2,645,000 (2012: £2,331,000). In the University's Accounts the net book value of land and buildings based on historic cost would be £104,380,000 (2012: £98,088,000), the depreciation charge for the year being £2,352,000 (2012: £2,090,000).

The value of land in the consolidated accounts, not depreciated, included with main buildings and grounds is £5,464,000 (2012: £5,467,000).

On 22 February 1999 the University and Pochin plc formed a joint venture company, Keele Park Developments Ltd, to provide a new access road and four innovation centre buildings. The University had a 25% non-participating shareholding in the company and granted it a 135-year lease on seven acres of land for the development. The land has remained stated at original net book value in fixed assets. On 2 August 2013, the University purchased the four buildings from the company. There has been no impact on fixed assets for the year ended 31 July 2013.

In July 2007, the University leased its student accommodation to Keele Residential Funding plc for a period of 40 years. The assets leased remain on the balance sheet of the University and the premiums received are released over the life of the lease. The updated net book value on the University fixed asset register as at 31 July 2013 of the assets leased is £46,705,000 (2012: £45,226,000).

NOTES TO THE ACCOUNTS – continued

11 Tangible Assets (continued)

Heritage Assets

The University has a number of different types of heritage assets, some of which it owns, and some of which are held on loan deposit.

Library: Archives and Special Collections

The University holds a large number of manuscripts, archives and other special collections; these collections are housed in the University Library. They are held and maintained principally for their contribution to knowledge and culture.

Collections are acquired by deposit, gift and purchase. The University is committed to ensuring that these collections are exploited to their maximum advantage and made available efficiently and effectively. The University's collecting policy states that material should conform to at least one of the following criteria:

- It fits with the current or future teaching and research profile of the University
- It is of strategic local interest
- It supplements an existing collection
- It is material generated by the University and considered worth preserving.

During the year to 31 July 2009, these assets were professionally valued for insurance purposes by Michael Newman Associates. This valuation totalled £3,915,000. Within this, the items that are not owned by the University and are on deposit are valued at a total of £650,000 for insurance purposes. A list of the separate collections valued is shown below.

Owned by the University:

Arnold Bennett Papers
Wilfred Bloor Papers
Goldendale Iron Company
T.E. Hulme Archive
William Jack Collection
LePlay Collection
Lord Lindsay Papers
Local Collection
Karl Mannheim Papers
Pape Collection
Raymond Richards Collection
Sneyd Family Papers
Spode Papers
Warrilow Collection
Josiah Clement Wedgwood Collection
Jeavons Collection of 20th Century Slides
An Illuminated Manuscript

Not owned by the University (on deposit):

Havergal Brian Collection
Knights Solicitors Archive
Paget Papers
Tamworth Court Rolls

No additions or disposals have occurred in this or the previous four years.

Other Miscellaneous Artefacts

The University has various miscellaneous artefacts that it owns, mainly situated in Keele Hall and the Library. These are classed as follows:

- Pictures, Drawings and Prints
- Sculpture
- Furniture
- Silver and Plated Ware
- Porcelain

During the year to 31 July 2009, the above categories of assets were professionally valued for insurance purposes by Michael Newman Associates. This valuation totalled £1,377,000. No additions or disposals have occurred in this or the previous four years.

In the year to 31 July 2013, some of these items were revalued by external professional valuers with a combined additional value of £970,000 taking this category valuation to £2,347,000.

Raven Mason Pottery Collection

This important ceramic collection was created by brothers Ronald William and John Mason Raven; it is housed in Keele Hall within the University. The collection is not owned by the University, and is the property of the Raven Mason Trust. Therefore, no value has been ascribed to this Collection in these financial statements.

NOTES TO THE ACCOUNTS – continued

12 Fixed Asset Investments	Consolidated		University	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Keele Residential Fund at cost less impairment (see 12 a)	**55,597**	55,297	**55,597**	55,297
Investment in wholly owned subsidiary companies at cost (see 12 b)	**-**	-	**475**	475
Investment in spin out companies at cost less impairment (see 12 c)	**-**	3	**-**	3
Other investments (see 12 d)	**50**	50	**50**	50
Equities (see 12 e)	**33**	33	**33**	33
	55,680	55,383	**56,155**	55,858
Investment in joint venture company at cost (see 12 f)	**(312)**	(246)	**-**	-

Investments in subsidiary companies, equities and other investments are stated at cost less amounts written off.

12 (a) Keele Residential Fund

The overall market value provided by the investment managers of the Keele Residential Fund investment as at 31 July 2013 is higher than the cost value stated above. During the year, the net impairment charge for the Keele Residential Fund was £nil (2012: £2,548,000).

12 (b) Investment in wholly owned subsidiary companies

The University had the following investments in wholly owned subsidiary companies as at 31 July 2013:

Name of Investment	Class of share	Proportion held by University	Nature of business
Keele University Science and Business Park Ltd	Ordinary	100%	Land development and associated activity
Keele University Science Park Ltd	Ordinary	100%	Operation and development of a science and business park
Keele Facilities Management Ltd	Ordinary	100%	Provision of consultancy services plus the delivery of facilities management services for associated and external customers
Keele Hotels Ltd	Ordinary	100%	Dormant company
Staffordshire Science Park Ltd	Ordinary	100%	Dormant company
Staffordshire Science and Business Park Ltd	Ordinary	100%	Dormant company
Cheshire East Science Park Ltd	Ordinary	100%	Dormant company

All of the above companies are registered in England and Wales.

As at 31 July 2013, Staffordshire Science Park Ltd, Staffordshire Science and Business Park Ltd and Cheshire East Science Park Ltd were in the process of being dissolved and removed from the register at Companies House.

NOTES TO THE ACCOUNTS – continued

12 Fixed Asset Investments (continued)

12 (c) Investment in spin out companies

The University had the following investments in spin out companies as at 31 July 2013:

Name of Investment	Class of share	No of shares purchased	Proportion held by University & Group	Turnover 2013 £'000	Nature of business
Intelligent Orthopaedics Ltd	10 pence ordinary C	575	18.8% (see below)	112	Production of devices for fracture operations
SciCorr Ltd	£1 ordinary	2,500	13.5% (see below)	1	Identifying corroded steel within concrete by non-destructive means
Prescribing Decision Support Limited	£1 ordinary	250	25.0%	200	Software to assist pharmacist decisions
nanoTherics Ltd	2.5 pence ordinary 2.5 pence "A" ordinary 2.5 pence "B" ordinary	1,680) 112) 707)	4.7% (see below)	249	Gene transfection technology

The University has a shareholding in Intelligent Orthopaedics Ltd of 18.8%, but this is split in three equal shares with Staffordshire University and the University Hospital of North Staffordshire NHS Trust. The University holds the shares of its two partners in trust.

The University had a 23.4% shareholding in Sciorr Limited as at 31 July 2012. However, during the year the company has issued further shares, and the University has chosen not to take up its rights. Therefore, the University shareholding was diluted to 13.5% during the year.

During the year, the University purchased 707 2.5 pence "B" ordinary shares in nanoTherics Limited for £18,948. The cost was written off directly to the Income and Expenditure account.

Investments in spin out companies are stated at cost less amounts written off or impaired. Where the University holds 20% or more of the share capital of the spin out companies, the University does not account for these investments as associates but holds them as simple investments in line with those in which it has a less than 20% shareholding. This is on the basis that the University merely holds the shares as an investment, and does not seek to exercise any significant influence over the operating and financial policies of the spin out companies.

12 (d) Other Investments

The University holds 99.7% of the shares in KRF Holdings Ltd but has no Board representation and no voting rights and, on this basis, it has not been consolidated into the accounts and is included at cost.

As at 31 July 2013, the University held 25 Ordinary "A" shares of Keele Park Developments Ltd. On 2 August 2013, the University purchased the four buildings that this company owned for £7.5million. At the same time, it sold its shareholding in Keele Park Developments Ltd to the only other shareholder Pochin Plc for £1.

The University is a founder member of Net North West Ltd, which is a company limited by guarantee. The company is a consortium of higher education institutions in the north west of England which wish to establish improved electronic network connections to support their work in teaching, learning, research and commercial applications.

12 (e) Equities

The University holds equity shares that are treated as simple investments as follows:

£	Shares held in	Description
130	Anchor Tenants	Sundry investment
31,761	CVCP Properties PLC	CVCP Properties plc is a company owned by 100 Higher Education institutions, whose executive heads are members of Universities UK.
1,388	Lloyds Bank	Shares in Lloyds banking group

NOTES TO THE ACCOUNTS – continued

12 Fixed Asset Investments (continued)

12 (f) Investment in Joint Venture Company

The University had the following investment in a joint venture company as at 31 July 2013:

Name of Investment	Class of share	Proportion held by University	Nature of business
Keele Seddon Ltd	Ordinary	50%	Land development and associated activity

The other 50% of the company is held by Seddon Solutions Limited.

The company is seeking to build new Halls of Residence on the main campus site, and to develop land owned by the University next to the main campus which currently has Halls of Residence on it.

The company has an accounting reference date of 31 December. The University will account for the joint venture using financial information as at 31 July of each year. As at 31 July 2013, there are no significant contingent liabilities or capital commitments related to Keele Seddon Ltd.

The arrangement is treated as a joint venture and is accounted for using the gross equity method, such that 50% of the company's gross assets and liabilities are incorporated into the consolidated balance sheet of the University and 50% of its net income and deficit is reported in the University's consolidated income and expenditure account.

	Year ended 31 July 2013	Year ended 31 July 2012
	£'000	£'000
Income and expenditure account		
Income	**-**	-
Deficit before tax	**(66)**	(4)
Balance sheet	**£'000**	£'000
Share of current assets	**16**	4
Share of current liabilities	**(328)**	(250)
Share of net liabilities	**(312)**	(246)

13 Endowment Asset Investments

	Consolidated & University	
	2013	2012
	£'000	£'000
At 1 August 2012	**1,043**	1,024
Additions	**104**	121
Net expenditure for the year	**(112)**	(102)
At 31 July 2013	**1,035**	1,043
Equities	**6**	6
Short-term investments	**1,029**	1,037
Total endowment asset investments	**1,035**	1,043

NOTES TO THE ACCOUNTS – continued

14 Debtors

	Consolidated 2013 £'000	Consolidated 2012 £'000	University 2013 £'000	University 2012 £'000
Amounts falling due within one year:				
Debtors	**4,747**	3,858	**4,546**	3,472
Prepayments and accrued income	**826**	2,573	**777**	2,517
Amounts due from subsidiary undertakings	-	-	**468**	412
	5,573	6,431	**5,791**	6,401
Amounts falling due after one year:				
Prepayments	**2,335**	2,464	**2,335**	2,464
Amounts due from subsidiary undertakings	-	-	**7,021**	6,315
	7,908	8,895	**15,147**	15,180

The balance in prepayments due after one year relates to deferred costs of the Keele Residential Funding agreement, which are being expended over the life of the lease. The balance in amounts due from subsidiary undertakings after one year relate to loans made by the University to its subsidiaries.

15 Current Asset Investments

	Consolidated & University 2013 £'000	Consolidated & University 2012 £'000
Current portion of Keele Residential Fund	**817**	572
Short term deposits (all maturing in less than one year)	**23,890**	8,745
	24,707	9,317

Deposits are held with banks and building societies operating in the London market and licensed by the Financial Services Authority. The interest rates for these deposits are fixed for the duration of the deposit at time of placement.

16 Creditors: Amounts Falling Due Within One Year

	Consolidated 2013 £'000	Consolidated 2012 £'000	University 2013 £'000	University 2012 £'000
Mortgages and unsecured loans	**1,740**	831	**1,740**	831
Bank overdraft	**50**	106	**50**	106
Payments received on account	**1,932**	1,767	**1,932**	1,767
Other creditors	**5,254**	3,747	**4,978**	3,495
Social security and other taxation payable	**1,376**	1,370	**1,376**	1,370
Accruals and deferred income	**38,727**	38,371	**38,479**	37,772
Amounts due to subsidiary undertakings	**-**	-	**947**	696
Current portion of Keele Residential Funding premium (Note 17)	**2,842**	2,842	**2,842**	2,842
	51,921	49,034	**52,344**	48,879

NOTES TO THE ACCOUNTS – continued

17 Creditors : Amounts Falling Due After More Than One Year

	Consolidated		University	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Mortgages and unsecured loans	**31,312**	13,507	**31,312**	13,507
Long-term portion of Keele Residential Funding premium (see below)	**65,949**	68,791	**65,949**	68,791
Other long-term creditors	**9,694**	9,694	**200**	200
	106,955	91,992	**97,461**	82,498

The Keele Residential Funding premium represents the premiums received on the lease of student accommodation to Keele Residential Funding plc. The premiums are being released on a straight-line basis over the period of the lease agreements.

	Consolidated & University	
Analysis of mortgages and unsecured loans:	**2013**	2012
	£'000	£'000
The debt can be analysed as falling due:		
In one year or less, or on demand	**1,740**	831
Between one and two years	**1,740**	831
Between two and five years	**5,221**	2,494
In five years or more	**24,351**	10,182
	33,052	14,338

In the year ended 31 July 2005, the University secured a loan facility of £18m, which comprised a £13m term loan and a £5m revolving credit facility. The term loan is repayable in full after 25 years from the date of the first draw down. Of this facility, there is a £2m term loan with interest fixed at a rate of 9.19% for the life of the loan. The remaining £11m balance of the term loan facility has an interest rate based on LIBOR hedged at 5.22%, plus an agreed margin. The capital balance repayable for the term loan as at 31 July 2013 is £9,494k.

The revolving credit facility of £5m was turned into a term loan over 20 years from 12 October 2009. This facility has a variable interest rate based on LIBOR plus an agreed margin. The capital balance repayable as at 31 July 2013 is £4,012k.

During the year to 31 July 2010, the University secured a further loan facility of £20m. Of this facility, £15m has an interest rate based initially on LIBOR plus an agreed margin. This proportion of the facility has been hedged from 22 April 2013, after which date, the University will pay a fixed rate of 6.885%. The remaining £5m balance of the term loan facility has an interest rate based on LIBOR plus an agreed margin. The facility was drawn down in the year, and is repayable in full by January 2035, a term of 25 years from the date that the agreement was signed. The capital balance repayable as at 31 July 2013 is £19,546k.

18 Operating lease commitments

Annual commitments under non-cancellable operating leases are as follows:

	Consolidated & University	
Other	**2013**	2012
	£'000	£'000
Expires within one year	**-**	-
Expires between two and five years	**480**	-
Expires after more five years	**-**	-
	480	-

This relates to a new contract for multifunctional printing devices.

NOTES TO THE ACCOUNTS – continued

19 Provisions for Liabilities

	Consolidated			University		
	Deferred Taxation	Pay and Severances	Total	Deferred Taxation	Pay and Severances	Total
	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2012	33	216	249	-	216	216
Recognised in the year	(15)	(203)	(218)	-	(203)	(203)
Additions	-	186	186	-	186	186
At 31 July 2013	**18**	**199**	**217**	**-**	**199**	**199**

NOTES TO THE ACCOUNTS – continued

20 Deferred Capital Grants

	Consolidated				University			
	Funding Council	Other Grants & Benefactions	Heritage Assets	Total	Funding Council	Other Grants & Benefactions	Heritage Assets	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2012								
Buildings	35,230	4,555	-	39,785	32,060	4,520	-	36,580
Equipment	2,347	185	-	2,532	2,358	185	-	2,543
Heritage assets	-	-	4,642	4,642	-	-	4,642	4,642
Total	37,577	4,740	4,642	46,959	34,418	4,705	4,642	43,765
Cash Received								
Buildings	-	160	-	160	-	20	-	20
Equipment	566	2,222	-	2,788	566	2,222	-	2,788
Total	566	2,382	-	2,948	566	2,242	-	2,808
Valuation of Heritage Assets								
Heritage assets	-	-	970	970	-	-	970	970
	-	-	970	970	-	-	970	970
Disposals								
Buildings	26	-	-	26	26	-	-	26
Equipment	-	-	-	-	-	-	-	-
Total	26	-	-	26	26	-	-	26
Released to Income and Expenditure								
Buildings	923	100	-	1,023	868	98	-	966
Equipment	712	194	-	906	700	194	-	894
Total	1,635	294	-	1,929	1,568	292	-	1,860
At 31 July 2013								
Buildings	**34,281**	**4,615**	**-**	**38,896**	**31,166**	**4,442**	**-**	**35,608**
Equipment	**2,201**	**2,213**	**-**	**4,414**	**2,224**	**2,213**	**-**	**4,437**
Heritage assets	**-**	**-**	**5,612**	**5,612**	**-**	**-**	**5,612**	**5,612**
Total	**36,482**	**6,828**	**5,612**	**48,922**	**33,390**	**6,655**	**5,612**	**45,657**

NOTES TO THE ACCOUNTS – continued

21 Endowments (Consolidated & University)

	Unrestricted Permanent	Restricted Expendable	Restricted Permanent	Restricted Total	Total
	£'000	£'000	£'000	£'000	£'000
Capital value	-	49	97	146	146
Accumulated income	-	817	80	897	897
At 1 August 2012	-	866	177	1,043	1,043
Net additions	-	104	-	104	104
Income for year	-	6	1	7	7
Expenditure for the year	-	(118)	(1)	(119)	(119)
Reclassification	-	(24)	24	-	-
At 31 July 2013	**-**	**834**	**201**	**1,035**	**1,035**
Represented by:					
Capital value	-	49	117	166	166
Accumulated income	-	785	84	869	869
	-	834	201	1,035	1,035

There are no endowments or capital balances in deficit as at 31 July 2013

22 Revaluation Reserve

	Consolidated		University	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
At 1 August 2012				
Land and Buildings	**31,809**	32,535	**30,185**	30,889
Investments	**-**	195	**-**	195
Contributions to depreciation	**725**	726	**703**	704
Release to income and expenditure account on disposal of fixed assets	**58**	-	**58**	-
Devaluation / (Revaluation) of fixed asset investments in year	**-**	195	**-**	195
	783	921	**761**	899
At 31 July 2013				
Land and Buildings	**31,026**	31,809	**29,424**	30,185
Investments	**-**	-	**-**	-

NOTES TO THE ACCOUNTS – continued

23 Income and Expenditure Account

	Consolidated		University	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Surplus after depreciation of assets at valuation and taxation	**5,360**	4,891	**5,761**	5,197
Release from revaluation reserve	**725**	726	**703**	704
Release from revaluation reserve on disposal of assets	**58**	-	**58**	-
Surplus for the year transferred from accumulated income in endowment funds	**112**	102	**112**	102
Historical cost surplus after taxation	**6,255**	5,719	**6,634**	6,003
Actuarial loss in respect of pension scheme	**(1,717)**	(1,766)	**(1,717)**	(1,766)
Balance at 1 August 2012	**(5,014)**	(8,967)	**(2,771)**	(7,008)
Balance at 31 July 2013	**(476)**	(5,014)	**2,146**	(2,771)

24 Amounts Disbursed as Agent - Access Funds (Consolidated and University)

	2012/13	2011/12
	£'000	£'000
Grant income	**155**	156
Payments:		
Undergraduate support	**155**	156
Postgraduate support	**-**	-
	155	156

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

25 Amounts Disbursed as Agent – National College for Teaching and Leadership (“NCTL”)

	2012/13	2011/12
	£'000	£'000
Grant income	**1,820**	1,205
Grant payments	**1,820**	1,205

The grant income received from the NCTL is available solely for the students, the University acts only as a paying agent. The grant income and related payments to the students are therefore excluded from the income and expenditure account.

NOTES TO THE ACCOUNTS – continued

26 Obligations under the Financial Restructuring Agreements

Under the agreements for the lease of student accommodation to Keele Residential Funding plc, the University has a contractual duty to maintain and refurbish the student halls of residence. Investments of £29,927,000 have been set aside as at 31 July 2013 to enable the University to meet its future obligations in respect of the agreed refurbishment programme. These investments are shown as part of the Keele Residential Funds. The University is required to ensure funds are maintained at a level to ensure compliance with agreed maintenance programmes and failure to comply may result in moneys being withheld from annual University rent payments due from Keele Residential Funding plc.

27 Contingent Liabilities

	Consolidated & University	
	2013	2012
	£'000	£'000
Repurchase of houses sold to staff	**11,650**	12,149
Interest guarantee in respect of Keele Park Developments Ltd	**-**	1,000
	11,650	13,149

The University has a stock of houses on campus that is available to purchase or rent for employees under various Schemes. If a house is purchased by an individual, the University covenants to re-purchase the house from that person if they are unable to sell to another eligible person. The contingent liability represents the stock of houses that the University would be liable to purchase if all of the owners called on the University to do so as at 31 July at an estimated market value.

In August 2013 the University purchased the four innovation centre buildings previously owned by Keele Park Developments Ltd and, at the same time, sold its shareholding in Keele Park Developments Ltd to the only other shareholder Pochins Plc for £1. As part of the overall transaction the University was released from its interest guarantee. As no call was made on the guarantee after 31 July 2013 it has been removed as a contingent liability.

28 Capital Commitments

	Consolidated		University	
	2013	2012	**2013**	2012
	£'000	£'000	**£'000**	£'000
Commitments contracted at 31 July	**2,038**	3,491	**2,038**	3,151

29 Analysis of Changes in Consolidated Financing During the Year

	Mortgages & Loans £'000
Balance at 1 August 2011	15,169
New loans	-
Capital repayments	(831)
Balance at 31 July 2012	14,338
New loans	20,000
Capital repayments	(1,286)
Balance at 31 July 2013	**33,052**

NOTES TO THE ACCOUNTS – continued

30 Reconciliation of Consolidated Operating Surplus to Net Cash From Operating Activities

	2013	2012
	£'000	£'000
Surplus before tax	**5,411**	4,897
Depreciation (Note 11)	**5,038**	4,787
Deferred capital grants released to income (Note 20)	**(1,929)**	(1,888)
Deferred premium released to income	**(2,842)**	(2,842)
Investment income and endowments	**(2,113)**	(2,109)
(Profit) / loss on sale of fixed assets	**(147)**	1,126
Impairment of fixed asset investments	**3**	2,548
Gain on fixed asset investments	**(305)**	(235)
Loss on fixed asset investments	**60**	264
Interest payable (Note 8)	**1,161**	916
Pension cost less contributions payable	**1,120**	(172)
Decrease / (increase) in stocks	**19**	(1)
Decrease in debtors	**1,005**	810
Increase / (decrease) in creditors	**1,552**	(201)
Decrease in provisions	**(17)**	(142)
Endowment transfer	**112**	102
Net cash inflow from operating activities	**8,128**	7,860

31 Analysis of Changes in Net Debt

	At 1 Aug 12	Cash Flows	**At 31 Jul 13**
	£'000	£'000	**£'000**
Cash at bank and in hand			
Cash and bank	1,491	1,021	**2,512**
Bank overdraft	(106)	56	**(50)**
	1,385	1,077	**2,462**
Short-term deposits			
Endowment assets	1,037	(8)	**1,029**
Other	9,317	15,390	**24,707**
Debt due within one year	(831)	(909)	**(1,740)**
Debt due after one year	(13,507)	(17,805)	**(31,312)**
	(2,599)	(2,255)	**(4,854)**

32 Returns on Investments and Servicing of Finance

	2013	2012
	£'000	£'000
Income from endowments (Note 21)	**7**	11
Income from investments	**1,104**	1,036
Interest paid	**(1,139)**	(920)
	(28)	127

NOTES TO THE ACCOUNTS – continued

33 Capital Expenditure and Financial Investment	2013	2012
	£'000	£'000
Tangible assets acquired	(14,746)	(9,045)
Fixed asset and other investments acquired	-	(11)
Receipts from sales of fixed assets	522	1,234
Deferred capital grants received (Note 20)	2,948	542
Movement between fixed asset and current asset investments	817	(1,793)
Net endowments received (Note 21)	104	121
	(10,355)	(8,952)

34 Pension Schemes

The two principal pension schemes for University staff are the Universities Superannuation Scheme (USS) and the Keele Superannuation Scheme (KSS). Both are defined benefit schemes.

Total pension cost for the year	2012/13	2011/12
	£'000	£'000
USS: contributions paid	6,723	6,434
KSS: charge to the income and expenditure account in staff costs	550	510
LGPS: charge to the income and expenditure account in staff costs	45	96
LGPS: charge to the income and expenditure account in staff costs (FRS17 opening balance)	1,503	-
NHS: contributions paid	352	377
Total pension cost for year (charged to staff costs in the income and expenditure account as per Note 6)	9,173	7,417

Universities Superannuation Scheme ("USS")

The University participates in the Universities Superannuation Scheme, 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 Ltd.

The appointment of directors to the board of the trustee is determined by the trustee company's Articles of Association. Four of the directors are appointed by Universities UK; three are appointed by the University and College Union, of whom at least one must be a USS pensioner member; and a minimum of three and a maximum of five are independant directors appointed by the Board. Under the scheme trust deed and rules, the employer contribution rate is determined by the trustee, acting on actuarial advice.

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. An "inflation risk premium" adjustment was also included by deducting 0.3% from the market-implied inflation on account of the historically high level of inflation implied by government bonds, (particularly when compared to the Bank of England's target of 2% for CPI which corresponds broadly to 2.75% for RPI per annum.)

To calculate the technical provisions, it was assumed that the valuation rate of interest would be 6.1% per annum, salary increases would be 4.4% per annum (with short-term general pay growth at 3.65% per annum and an additional allowance for increases in salaries due to age and promotion reflecting historic scheme experience, with a further cautionary reserve on top for past service liabilities) and pensions would increase by 3.4% per annum for 3 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

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

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.

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 past service liabilities of 4.4% per annum (the expected return on gilts) the funding level was approximately 68%. Under the Pension Protection Fund regulations introduced by the Pensions Act 2004 the scheme was 93% funded; on a buy-out basis (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 FRS 17 formula as if USS was a single employer scheme, using an AA bond discount rate of 5.5% per annum based on spot yields, the actuary estimated that the funding level as at 31 March 2011 was 82%.

As part of this valuation, the trustees have determined, after consultation with the employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial actuarial valuation is 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 benefits 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.

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 sighted as the two most significant factors affecting the funding positions which have been taken into account for the 31 March 2013 estimation.

On the FRS 17 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 £1.0 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.

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

The trustees believe 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 the 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 sponsoring employers would be willing and able to make, it is necessary and appropriate for the trustee 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 University had 1,287 active members participating in the scheme.

The total pension cost for the University was £6,723,000 (2012: £6,434,000). This includes £865,000 (2012: £822,000) outstanding contributions at the balance sheet date. The contribution rate payable by the University was 16.0% of pensionable salaries and employee contributions were either 6.5% (Career Revalued Benefits section) or 7.5% (Final Salary section) of pensionable salaries.

Keele Superannuation Scheme (KSS)

The KSS is a defined benefit scheme in the United Kingdom that pays out pensions at retirement based on service and final pay, with the assets held in separate trustee-administered funds. The employer contribution made for the year ended 31 July 2013 was £1,425,000 (2012: £1,184,000). This includes £nil (2012: £nil) outstanding contributions at the balance sheet date.

The latest full actuarial valuation at 1 August 2011 showed an increase in deficit from £11,793,000 as at 1 August 2008 to £18,300,000. For the year ended 31 July 2013, the University has been contributing at a rate of 27.40% and employee contributions were 7.50% of pensionable salaries. Additionally, the University also contributed a payment of £824,000 per annum payable monthly.

The University is currently consulting with the KSS active members on closing KSS to future accrual and transferring active members to USS. The consultation is due to close on 9 November, and a decision will be made shortly thereafter.

Application of FRS 17 to KSS

The following information is based upon a full actuarial valuation of KSS at 1 August 2011 updated to 31 July 2013 by a qualified independent actuary. The University has applied FRS 17 and the following disclosures relate to this standard. The University recognises any gains or losses in each period in the Statement of Total Recognised Gains and Losses.

The principal actuarial assumptions used by the actuary at the balance sheet date (expressed as weighted averages) are:

		At 31 July 2013	At 31 July 2012
Discount rate applied to scheme liabilities		4.70%	4.40%
Rate of future inflation – RPI		3.25%	2.50%
Rate of future inflation – CPI		2.50%	1.75%
Future salary increases		3.25%	2.50%
Rate of increase in pensions in payment and deferred pensions:-			
	Pre 1 August 2001 Service	4.00%	3.75%
	1 August 2001 to 30 November 2006 Service	3.10%	2.50%
	Post 1 December 2006 Service	2.10%	1.90%
Proportion of employees opting for early retirement		Where a member can take all their benefits from 60, it has been assumed they retire at 60. Where a member can take some of their benefits from 60, an allowance has been made for the extra value of the benefits.	
Commutation allowance		Members commute 25% of their pension	Members commute 25% of their pension
Mortality – current pensioners			
	Actuarial tables used	102% S1PA CMI 2010 1.25%	PCA00+1 YoB MC 1% Underpin
	Male life expectancy at age 65	22	21
	Female life expectancy at age 65	24	24
Mortality – future pensioners currently aged 50			
	Actuarial tables used	102% S1PA CMI 2010 1.25%	PCA00+1 YoB MC 1% Underpin
	Male life expectancy at age 65	24	23
	Female life expectancy at age 65	26	25

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

KSS Scheme Assets and Liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

The amounts recognised in the balance sheet are as follows:	**At 31 July 2013**	At 31 July 2012
	£'000	£'000
Present value of funded obligations	**(45,300)**	(42,212)
Fair value of scheme assets	**27,116**	25,641
Deficit in scheme at end of year	**(18,184)**	(16,571)

The pension scheme assets include no assets from the University's own financial instruments and do not include any property occupied by, or other assets used by, the University.

The amounts recognised in the income and expenditure account are as follows:	**2012/13**	2011/12
	£'000	£'000
Current service cost	**550**	510
Interest on obligation	**1,842**	2,040
Expected return on scheme assets	**(1,340)**	(1,538)
Total	**1,052**	1,012

	2012/13	2011/12
	£'000	£'000
Actual return on scheme assets	**1,277**	1,976

Changes in the present value of the defined benefit obligation are as follows:	**2012/13**	2011/12
	£'000	£'000
Opening defined benefit obligation	**42,212**	39,049
Service cost	**550**	510
Interest cost	**1,842**	2,040
Actuarial losses	**1,923**	2.204
Contributions paid by scheme members	**173**	189
Benefits paid	**(1,400)**	(1,780)
Closing defined benefit obligation	**45,300**	42,212

Changes in the fair value of the scheme assets are as follows:	**2012/13**	2011/12
	£'000	£'000
Opening fair value of scheme assets	**25,641**	24,072
Expected return	**1,340**	1,538
Actuarial gains	**(63)**	438
Contributions paid by employer	**1,425**	1,184
Contributions paid by scheme members	**173**	189
Benefits paid	**(1,400)**	(1,780)
Closing fair value of scheme assets	**27,116**	25,641

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

The University expects to contribute in the region of £1,600,000 to the scheme in the next year (that is maintaining at least the current level of £900,000 deficit contributions, plus 27.40% of salaries).

The overall expected return assumption is calculated as the weighted average of the individual expected return assumptions for each of the major asset classes. The individual return assumptions are based on the investment market conditions in the UK, specifically with regard to yields on UK Government gilts, high quality AA rated corporate bonds, and interest rates set by the Bank of England. Equity returns in well established global markets are generally expected to outperform the return on gilts in the long term, and such anticipated outperformance has been taken into account in deriving the expected return from equity type investments.

The weightings used for the overall expected return are in line with the proportions invested in each of the major asset classes, and a deduction to allow for investment expenses has been made. The expected rates of return for each asset class, gross of scheme expenses, were:

	2012/13	2011/12
Equities / Return Seeking Funds	**6.50%**	6.00%
Corporate Bonds	**4.40%**	4.10%
Cash	**0.50%**	0.50%

The major categories of scheme assets as a percentage of total scheme assets were as follows:

	2012/13	2011/12
Equities / Return Seeking Funds	**59.41%**	59.40%
Corporate Bonds	**40.45%**	40.60%
Cash	**0.14%**	-

Amounts for the current and previous four periods are as follows:

	31 July 2013 £'000	31 July 2012 £'000	31 July 2011 £'000	31 July 2010 £'000	31 July 2009 £'000
Defined benefit obligation	**45,300**	42,212	39,049	37,202	31,064
Scheme assets	**(27,116)**	(25,641)	(24,072)	(22,427)	(19,641)
Deficit	**18,184**	16,571	14,977	14,775	11,423
Experience adjustments on scheme liabilities	**-**	-	(478)	-	(3,194)
Experience adjustments on scheme assets	**(63)**	438	23	1,621	(2,264)

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL):	**Period to 31 July 2013 £'000**	**Cumulative amount to 31 July 2013 £'000**
Total actuarial loss recognised in STRGL	**(1,986)**	**(16,753)**

Local Government Pension Scheme (LGPS)

The LGPS is a defined benefit statutory scheme in the United Kingdom, administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, the Local Government Pension Scheme (Administration) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) Regulations 2008. It is contracted out of the State Second Pension. The employer contribution made for the year ended 31 July 2013 was £96,000 (2012: £96,000). This includes £nil (2012: £nil) outstanding contributions at the balance sheet date.

For the year ended 31 July 2013, the University has been contributing at a rate of 43.60% from 1 August 2012 and 46.70% from 1 April 2013 and employee contributions were tiered at 6.50% or 6.80% of pensionable salaries.

Application of FRS 17 to LGPS

The following information is based upon a full actuarial valuation of LGPS at 31 March 2010 updated to 31 July 2013 by a qualified independent actuary. The University has started to apply FRS 17 for the LGPS from the year ended 31 July 2013 and the following disclosures relate to this standard. The University recognises any gains or losses in each period in the Statement of Total Recognised Gains and Losses.

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

The principal actuarial assumptions used by the actuary at the balance sheet date (expressed as weighted averages) are:

	At 31 July 2013
Discount rate applied to scheme liabilities	4.60%
Rate of future inflation – RPI	3.60%
Rate of future inflation – CPI	2.80%
Future salary increases	5.10%
Rate of increase in pensions	2.80%

Future salary increases are assumed to be 1.0% until 31 March 2015 reverting to the long term assumption shown thereafter.

Commutation allowance

An allowance is included for future retirees to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Mortality Assumptions

Life expectancy is based on the fund's VitaCurves with improvements from 2007 in line with the medium cohort and a 1% pa underpin. Based on these assumptions, the average future life expectancies are summaried below:

Current pensioners		
	Male life expectancy at age 65	21
	Female life expectancy at age 65	23
Future pensioners currently aged 45		
	Male life expectancy at age 65	23
	Female life expectancy at age 65	26

The assumptions used by the actuary are the best estimates chosen from a range of possible actuarial assumptions, which, due to the timescale covered, may not necessarily be borne out in practice.

LGPS Scheme Assets and Liabilities

The fair value of the scheme's assets, which are not intended to be realised in the short term and may be subject to significant change before they are realised, and the present value of the scheme's liabilities, which are derived from cash flow projections over long periods and thus inherently uncertain, were:

The amounts recognised in the balance sheet are as follows:	**At 31 July 2013 £'000**
Present value of funded obligations	**(4,085)**
Fair value of scheme assets	**2,861**
Deficit in scheme at end of year	**(1,224)**

As at 1 August 2012, the present value of funded obligations was £3,988,000 and the fair value of scheme assets was £2,485,000 giving a deficit of £1,503,000. This deficit was brought into the University accounts at that date through the Income and Expenditure account. The pension scheme assets include no assets from the University's own financial instruments and do not include any property occupied by, or other assets used by, the University.

The amounts recognised in the income and expenditure account are as follows:	**2012/13 £'000**
Current service cost	**45**
Interest on obligation	**161**
Expected return on scheme assets	**(120)**
Total	**86**

	2012/13 £'000
Actual return on scheme assets	**456**

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

Changes in the present value of the defined benefit obligation are as follows:	**2012/13**
	£'000
Opening defined benefit obligation	-
Introduction of previous year's obligations	**3,988**
Service cost	**45**
Interest cost	**161**
Actuarial losses	**66**
Contributions paid by scheme members	**13**
Benefits paid	**(188)**
Closing defined benefit obligation	**4,085**

Changes in the fair value of the scheme assets are as follows:	**2012/13**
	£'000
Opening fair value of scheme assets	-
Introduction of previous year's obligations	**2,485**
Expected return	**120**
Actuarial gains	**335**
Contributions paid by employer	**96**
Contributions paid by scheme members	**13**
Benefits paid	**(188)**
Closing fair value of scheme assets	**2,861**

The University expects to contribute in the region of £66,000 to the scheme in the next year.

The return on the Fund in market value terms for the period to 31 July 2013 is estimated based on actual Fund returns and index returns where necessary.

The expected rates of return for each asset class, gross of scheme expenses, were:

	2012/13
Equities / Return Seeking Funds	**6.40%**
Corporate Bonds	**3.90%**
Property	**4.60%**
Cash	**3.40%**

The major categories of scheme assets as a percentage of total scheme assets were as follows:

	2012/13
Equities / Return Seeking Funds	**77.00%**
Corporate Bonds	**12.00%**
Property	**8.00%**
Cash	**3.00%**

NOTES TO THE ACCOUNTS – continued

34 Pension Schemes (continued)

Amounts for the current period is as follows:

	31 July 2013 £'000
Defined benefit obligation	**2,861**
Scheme assets	**(4,085)**
Deficit	**(1,224)**
Experience adjustments on scheme liabilities	-
Experience adjustments on scheme assets	**269**

Analysis of amount recognised in the Statement of Total Recognised Gains and Losses (STRGL):	Period to 31 July 2013 £'000	Cumulative amount to 31 July 2013 £'000
Total actuarial gains recognised in STRGL	**269**	**269**

35 Related Party Transactions

The University held shares in Keele Park Developments Ltd ("KPD") through the year to 31 July 2013, although these were sold on 2 August 2013. The University had entered into a lease with this company, enabling KPD to develop the land for commercial purposes. The University and a subsidiary company also provide facilities management services. During the year, the group received £712,000 (2012: £862,000) from KPD in sales income and paid £nil (2012: £4,000) in expenditure. As at 31 July 2013, £71,000 was owed to the group by KPD (2012: £168,000), and £nil (2012: £nil) was owed by the group to KPD.

As at 31 July 2013, there was an amount owed to the group from KPD of £nil (2012: £546,000). The balance had been fully provided against in previous years, and was formally written off in July 2013 in advance of the sale of shares and purchase of the buildings.

The University holds shares in a joint venture company, Keele Seddon Ltd ("KSD"). The University and its joint venture partner are currently equally funding the development of KSD. In the year, there were no trading transactions with the company, but as at 31 July 2013 there was an amount owed to the group from KSD of £321,000 (2012: £250,000).

Spin out companies

During the year, the University had the following transactions with spin out companies:

Company	Purchases (£)	Amounts owing at year end (£)	Sales (£)	Amounts owed at year end (£)
Prescribing Decision Support Ltd	Nil	Nil	17,428	196
SciCorr Ltd	Nil	Nil	27,481	22,481

There were no sales or purchases or related balance sheet debtors or creditors with Intelligent Orthopaedics Ltd and nanoTherics Ltd

Payment for services provided to the HEI by trustees

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

There were no payments for services provided by a trustee in the year (2012 – £nil).

Transactions with Keele University Student Union ("KSU") and Keele Postgraduate Association ("KPA")

The President of KSU and the Sabbatical Officer of the KPA are Council members during their term of office. As such they are a trustee of the University, and transactions are required to be disclosed between the University and the two bodies.

During the year, grants were awarded to KSU of £762,000 (2012 - £685,000) and to the KPA of £6,000 (2012 - £6,000). At the year end, £nil (2012 - £nil) was on the balance sheet for both the KSU and the KPA.

During the year, sales of £85,000 (2012 - £31,000) were made by the group to the KSU and £1,000 (2012 - £1,000) to the KPA, with a related debtor of £2,000 (2012 - £1,000) and £nil (2012 - £nil) respectively on the balance sheet. During the year, £502,000 (2012 - £428,000) was purchased by the group from KSU and there was a trade creditor balance of £nil (2012 - £nil). For the KPA, the University purchased items from them for £1,000 (2012 - £1,000) and had a trade creditor balance of £nil (2012 - £nil).

NOTES TO THE ACCOUNTS – continued

35 Related Party Transactions (continued)

Related "Paragraph W" Charities

The University administers certain exempt charitable funds for and on behalf of other exempt charities that fall within paragraph (w) of Schedule 2 of the Charities Act 1993 ('paragraph (w) charities').

Of these funds, four are accounted for as part of the University endowment funds and are for sundry activities, and none had income in the year over £100,000.

	Brought forward at 1 August 2012	Additions and transfers	Income	Expenditure	Carry forward at 31 July 2013
	£'000	£'000	£'000	£'000	£'000
Endowment linked (paragraph (w)) charities	162	-	3	(2)	163

Additionally, the University incorporates the Keele Concert Society into its financial statements, which is regarded as a paragraph w charity.

	Brought forward at 1 August 2012	Additions and transfers	Income	Expenditure	Carry forward at 31 July 2013
	£'000	£'000	£'000	£'000	£'000
Keele Concert Society	22	-	49	(51)	20

THE COUNCIL

For the year ended 31 July 2013

Members ex-Officio

The Pro-Chancellor	M. D. Peckham, JP, BA, CertEd, DipEdAdmin, FRSA
The Deputy Pro-Chancellors	Professor A. Ulph E. Manley
The Vice-Chancellor	Professor N. H. Foskett, MA, PhD, PGCE, FRSA
The Treasurer	D. Webster
The Deputy Vice-Chancellor	R. Thirunamachandran, MA (left Council 30 September 2013)

Members of University Staff

Professor J.Andrew
Professor W. J. Dixon, BA, MA, PhD
Dr W. Kirk, BSc, PhD (left Council 31 August 2013)
S. Lane
Dr A. Loweth, BSc, PhD (left Council 31 August 2013)
Dr C. Bucher (appointed to Council 1 September 2013)
Dr H. Parr (appointed to Council 1 September 2013)

Lay Members appointed by the Council

R. Barnes (appointed to Council 1 September 2012)
D. Carr, OBE, DL (left Council 31 August 2012)
P. Chipping, BSc, MB BS, FRCP, FRCPath
P. Clark (appointed to Council 1 September 2012)
R. Findlay (appointed to Council 1 April 2013)
A. Harris
S. Hashmi (appointed to Council 1 May 2013)
Sir J. James, KBE, CMG
Dr G. K. Khan, PhD, MSc, BE, FIEE, CEng, SMIEEE (left Council 31 August 2013)
P. Nagi (left Council 31 August 2012)
L. Nash-Jennings
S. Rammery
G. Robinson, RIBA, MAPM, ARB
R. J. Steele, BCom, FCA, CTA

Student Representatives

A. Irwin (left Council 30 June 2013)
J. Turner (left Council 30 June 2013)
V. Taylor (appointed to Council 1 July 2013)
L. Ironside (appointed to Council 1 July 2013)

Director of Finance

K. J. Clarke, MA, ACA

Secretary

Dr S. Clarke

Legal Advisers

Knights Solicitors LLP
The Brampton, Newcastle
Staffordshire
ST5 0QW

Bankers

National Westminster Bank plc
High Street, Newcastle
Staffordshire
ST5 1PP

External Auditors

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Internal Auditors

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